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††Except normal wear and maintenance items.



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VOL. 77, NO. 2

# Nation's Business

*Published by the U.S. Chamber of Commerce Washington, D.C.*

## MANAGING YOUR BUSINESS



PHOTO: © JOE TRAVER

## DEPARTMENTS


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COMMENTARY

# Letters

## An Ounce Of Prevention

Jane Easter Bahls' timely article on negligent hiring, "Your Worker's Crime May Make You Pay" [December], should serve as a warning to businesses throughout the U.S. that there is a growing body of law holding employers liable for their employees' acts.

Bahls correctly notes that the concept of "outside the scope of employment" is no longer a strong defense. Unfortunately, she also points out the bizarre cases rather than the more common ones.

Over the past five years, my firm has provided investigative services to both plaintiffs and defendants in negligent-hiring lawsuits. The cases we see involve employers who failed to make a reasonable attempt to evaluate the background of an applicant. After being hired, the employee engaged in serious criminal behavior involving the business' customers.

Had the employer made an inquiry before hiring the employee, he would have learned about prior criminal acts that would have indicated substantial risk to the employer, his other employees, and his customers.

The law is holding employers responsible for criminal acts because of the failure of employers to protect their customers. Most consumers believe reputable businesses hire reputable employees. Acting on this assumption, they give service-company employees keys and access to their homes and personal belongings. When a criminal act occurs, the victim reacts, claiming the business betrayed a trust.

It makes sound business sense to screen applicants. The identification of problem applicants before they become problem employees reduces the hidden costs of doing business. The current standard requires the employer to make a reasonable effort to evaluate the backgrounds of applicants. No one expects perfection, and reasonable efforts will pay off by reducing turnover and the risks associated with negligent hiring.

*Gary F. Davis*
*Wichita, Kan.*

*Send letters to Editor,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*


## Like Business, Like College

I just finished reading December's Entrepreneur's Notebook, "Colleges, Like Companies, Need Vision To Succeed." I was happy to see that reality has set in for at least one organization. Keith Briscoe's statement, "And I realized that to be successful, colleges today must operate like businesses," could be changed to include every type of organization.

Many people do not realize, nor do they want to believe, that today every organization, including churches, city governments, and all large corporations, must be run like a "business." Although each of these may have a different type of customer, all are susceptible to competition. A goal of every business is to continue, but unless people realize that a successful past does not mandate a successful future, many won't.

*Ron Honker*
*Luverne, Minn.*

## Reservations Recommended

December's "Direct Line" responds to an inquiry from S.R.L., Buffalo, regarding bed-and-breakfast inns for business travelers.

The American Bed and Breakfast Association's publications, to which you refer, may not be complete. A trade association for the bed-and-breakfast industry, Bed & Breakfast Reservation Services World-Wide Inc., publishes a listing of its members, which can be obtained for only $3.

Our members' services represent

my education (while earning minimum wage) to earn the income that I enjoy today.

A minimum-wage increase to $5 an hour will mean that I will *not* hire students, but older, experienced workers. An increase in the minimum wage coupled with mandatory health insurance will insure one thing: I will have a lot of part-time help working less than 18 hours a week.

Most employees do not see the hidden costs of wage increases. Besides the hourly increase, there are the increased Social Security, unemployment, and workers' compensation taxes that the employer, not the employee, pays.

My father (a union factory worker) gave me good advice years ago: "The more you learn, the more you earn!" If you want to earn more, make yourself more valuable to your employer.

Don't damn the business owner, Mr. Bothel, until you have stood in his shoes.

*Steven M. Bohne*
*Adrian, Mich.*

## The Cold Facts About Colds

November's "To Your Health" ["Gesundheit!"] says that my advice is to spray disinfectant on objects (like telephones, copying machines, and door knobs) that are shared by co-workers.

I have never made such a statement, or anything similar, as I believe that attempts at random disinfection of the

technologies, procedures, safety and health issues, and the overall demand for increased productivity.

What firms of all sizes need to do is assess the scope of this problem within their organizations and, if applicable, design a specific educational solution. The elements of the solution should be directly tied to each firm's strategic business plan and corporate culture, and the solution should produce more qualified and productive employees.

*C. Michael Higgins*
*Dallas*

## Mapping Out A Successful 1989

If it wasn't for *Nation's Business,* Smith Barney's Family Business Group would never have been on the map! We continue to be deluged with calls and compliments on Sharon Nelton's September article "Family Business: A Hot Market."

Since the article was published, we have expanded our group to five professionals currently in contact with over 100 family businesses and actively assisting 40 of them in dealing with succession issues, financing requirements, and financial advisory needs.

As you can see, our group had a great start in 1988 and is looking at an even better 1989.

*François M. de Visscher*
*Vice President*
*Smith Barney*
*New York*

COMMENTARY

# Letters



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Our members' services represent

more than 5,000 of the best B&B accommodations throughout the world—all inspected for cleanliness, hospitality, and comfort. Indeed, a businessperson can find a very suitable accommodation for an evening or longer by calling a member and describing his or her needs.
*Aster Mould*
*President*
*Bed & Breakfast Reservation Services World-Wide*
*Baton Rouge, La.*

### The Other Side

In reply to Lyle Bothel's letter in the January issue ["The Battle Wages On," in which he challenged business-group members to "try to live and support a family on $3.35 per hour"], it is true that I do not work at minimum wage . . . now.

I worked, started my own business, invested thousands of hours and dollars, worked 18-hour days 7 days a week to build my business, and paid for my education (while earning minimum wage) to earn the income that I enjoy today.

A minimum-wage increase to $5 an hour will mean that I will *not* hire students, but older, experienced workers. An increase in the minimum wage coupled with mandatory health insurance will insure one thing: I will have a lot of part-time help working less than 18 hours a week.

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I have never made such a statement, or anything similar, as I believe that attempts at random disinfection of the environment would be useless in preventing colds.
*Jack M. Gwaltney Jr., M.D.*
*Charlottesville, Va.*

### Good Reading

Your November issue is the best I've ever read. I've now read it twice and will have to go back to that outstanding article by Jack Shewmaker, "The Master Sellers."
*Christopher P. Hitchcock*
*Solon, Ohio*

### Literally Speaking

We were encouraged that you have addressed the issue of adult literacy and the costs of the lack of basic skills to business ["Can Your Workers Read?" October]. Workers throughout this country are faced with the monumental challenge to "retool" their basic skills to meet the changing work environment. The complexity of jobs is ever increasing, with the introduction of new technologies, procedures, safety and health issues, and the overall demand for increased productivity.

What firms of all sizes need to do is assess the scope of this problem within their organizations and, if applicable, design a specific educational solution. The elements of the solution should be directly tied to each firm's strategic business plan and corporate culture, and the solution should produce more qualified and productive employees.
*C. Michael Higgins*
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*François M. de Visscher*
*Vice President*
*Smith Barney*
*New York*

# Small-Business Update

*By Donald C. Bacon*

## New Spending Talk Worries GOP Whip

A top Republican leader in the House of Representatives says that proposals for new spending programs should be put aside in the new Congress until the budget-deficit problem has been resolved.

Rep. Richard Cheney, R-Wyo., House minority whip, told a business audience, "I am disturbed by talk of new spending programs in such areas as child care, education, and the environment."

President Bush pledged new initiatives in those areas during his election campaign. While he did not commit himself to large new expenditures, congressional advocates of those programs are expected to use the Bush comments as justification for seeking rapid expansion.

"The reality," Cheney said, "is that we have to deal with the deficit problem. . . . We have survived for 200 years without a federal child-care program, and another 24 months won't make that much difference."

The House GOP leader gave strong support to the new president's pledge not to increase taxes.

In response to a question, he speculated that if a tax increase did materialize, it would affect excise levies. He ruled out the possibility of increases in income-tax rates, which were reduced substantially by the landmark Tax Reform Act of 1986.

Cheney addressed a meeting of the Breakfast Bunch, a group of Washington-based corporate representatives affiliated with the congressional relations division of the U.S. Chamber of Commerce.

PHOTO: ©STAN BAROUH—UNIPHOTO

*Republican Rep. Richard Cheney of Wyoming, who is House minority whip, told a business audience, "I am disturbed by talk of new spending programs in such areas as child care, education, and the environment." He expressed strong support for President Bush's pledge not to increase taxes.*

### Manufacturers Urged To Work With Suppliers

Closer ties with small as well as large suppliers will pay dividends to a manufacturer seeking ways to produce better products and reduce costs, says Kevin O'Laughlin, senior consultant in logistics and management practices at Arthur D. Little Inc.

A "partnering" relationship maintained formally and informally with suppliers, O'Laughlin contends, can lead to higher standards of workmanship, better product design, lower logistics costs, and greater efficiency of production.

American manufacturers, he says, tend to rely on many suppliers and to think of purchases from suppliers only in terms of price.

O'Laughlin urges producers to cut back on the number of suppliers they use and to work more closely with those they retain.

Reducing the number of suppliers and raising the volume of purchases from each can substantially increase supplier interest in the design and development of better products, he says.

Among the examples cited by O'Laughlin was that of a manufacturer whose costs came down when a supplier engineered a generic part that replaced eight different parts produced by eight different suppliers.

## Some Views From The Top

Decisions Center Inc., a New York-based marketing-research firm, asked 1,101 middle- and senior-level executives for their views on the economy, their jobs, and benefits. The results:

*Average estimated time until the next recession*: 11.6 months.

*Believe they are unlikely to lose present employment*: 94 percent.

*Most widely offered non-standard benefit*: Organized social activities.

*Most desired non-standard benefits*: Fitness, alcohol, and drug-abuse programs.

*Most popular status symbol*: Company car.

### A Look At New "How-To" Books For Small Business

Bookstores and publishing houses are awash with new books to help small-business owners and managers. Among them:

*The 1989 Small Business Owner's Guide* emphasizes strategies for solving some 300 ownership and management problems. May be ordered for $79.95 from Prentice Hall, Englewood Cliffs, N.J. 07632.

*Guide to Small Business Bookkeeping Software* can help small businesses that want to computerize their accounting systems but are confused about choosing the right MS-DOS software. Priced at $79, plus $3 for shipping, from CTS Computer Training Services, 5900

Tudor Lane, Rockville, Md. 20852.

*Starting and Managing a Business in Your Home*, prepared by the U.S. Small Business Administration, is good first reading for anyone considering a home-based enterprise. Order for $1.75 from the U.S. Government Printing Office, Dept. SSMC, Washington, D.C. 20402. Ask for publication No. 045-000-00232-2.

*How to Run a Small Business*, an updated version of an old standby from the J.K. Lasser Tax Institute, incorporates new tax laws and other changes. Published by McGraw-Hill. Priced at $24.95.

*The Macmillan Small Business Handbook*, by Mark Stevens, brims with ideas and advice for novice as well as seasoned entrepreneurs. At bookstores for $35.

*Laventhol & Horwath Small Business Tax Planning Guide*, by Albert B. Ellentuck, focuses on what every small-business owner needs to know about the tax laws and on avoiding problems with the IRS. Published at $8.95 by Avon Books.

*Cashing In: Getting the Most When You Sell Your Business*, by Lisa Berger, Donelson Berger, and C. William Eastwood, lays out clear rules for the entire sales process, from valuing a small business to negotiating a sales contract. Published at $19.95 by Warner Books.

## This Month's NB TIPS

Business people can find cost-cutting tips in *100 Ways to Cut Legal Fees and Manage Your Lawyer*, by Erwin G. Krasnow and Robin S. Conrad. The $11.95 book can be ordered from the National Chamber Litigation Center, affiliated with the U.S. Chamber, 1615 H Street, N.W., Washington, D.C. 20062; 800-638-6582 (in Maryland, 800-352-1450). Ask for Publication No. 0104.

Workers' right-to-know regulations on hazardous substances are discussed in *Hazardous Substances: What Are They—Tips on Compliance with Title III*. For a free copy, write Judy Krueger, Regional Advocate, U.S. Small Business Administration, Suite 1300, 911 Walnut Street, Kansas City, Mo. 64106.

## Small Business Reassured By New President's Views

President Bush has reassured the nation's small businesses that he views government-mandated benefits and high taxes on capital gains as detrimental to their interests.

He commented on those issues in a pre-inaugural meeting with leaders of the small-business community.

The leaders included Christine Russell, director of the Small Business Center of the U.S. Chamber of Commerce, who said, "I am enthusiastic at how well [the president] understands the issues facing America's small businesses. . . . he made it clear that he will keep in touch with the small-business community through regular and ongoing meetings."

In addressing the capital-gains issues, Bush said: "We must provide incentives for people to take risks in small businesses."

The new president favors a reduction in the tax rate on capital gains, which are now taxed as ordinary income.

Russell said that Bush told the delegation that "he understands the problems they would face if Congress mandates additional employee benefits."

## A Business Tour Of China For Smaller Firms

A China tour sponsored by the National Chamber Foundation will give representatives of small and medium-sized American businesses an opportunity to evaluate commercial opportunities in the world's most populous country.

The foundation, an affiliate of the U.S. Chamber of Commerce, said in announcing the trip: "Participants will be able to establish the groundwork for developing investment and marketing opportunities by direct contact with leaders of the People's Republic of China, who are generally not accessible to foreigners."

The cost for the March 5-17 basic tour is $7,500 per person plus $2,500 per spouse. An optional, six-day tourist trip will begin the next day for an additional $1,000. Participants will assemble in Hong Kong and visit Beijing, Canton, Shanghai, and Hainan province.

The tour will be led by Anna Chennault, an international trade consultant with more than 30 years' experience in establishing links between Asian and U.S. businesses.

For details on joining the mission, contact John Volpe, Vice President, National Chamber Foundation, 1615 H Street, N.W., Washington, D.C. 20062; (202) 463-5620.

*With themes expressed in this logo, a four-day congress in Frankfurt, West Germany, in October, will help put U.S. small-business people in touch with potential European buyers.*

EXPORT
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## Europe Also Beckons U.S. Entrepreneurs

In addition to the China trip, small-business people can explore trade possibilities in Europe. The European Community's plan for tariff-free markets by 1992 will be the subject of the first international trade show exclusively for small business, Oct. 26-29, in Frankfurt, West Germany. During the show there will be a congress on European trade policies.

Cosponsors of the event include the U.S. Department of Commerce, various European agencies, and small-business advisory groups in the U.S. and Europe. The proposal for the exhibition was endorsed by the 1986 White House Conference on Small Business.

For details, contact Helen Burroughs, International Trade Administration, U.S. Department of Commerce, Washington, D.C.; (202) 377-2829. NB

# "At this insurance company Smith Corona is the policy."

*Bud Sariano, Manager, Office Services, Pennsylvania National Insurance Co.*

"When our insurance company needed word processors my dealer recommended Smith Corona. He suggested we try a PWP to see how we liked it. Boy, did we like it. Not only was it easy for the staff to use, it was easy for us to afford. Since then I've purchased almost 50 PWPs. I guess you could say Smith Corona has this insurance company covered."

As Office Services Manager for one of Pennsylvania's largest mutual insurance companies, Bud Sariano knows the importance of finding the right product for the right job. So it's not surprising that he chose Smith Corona to solve his business needs. Because, today, Smith Corona means business. They have an advanced line of office products that are perfect for small to medium-sized companies.

For example, the XD 9500 word processing typewriter lets you type, store, recall, edit and print text. The PWP 100 Office System is a fully featured word processor, offering 50,000 characters of internal memory, a built-in disk drive for unlimited external text storage, plus a 24 line by 80 character monitor. Or choose the portable PWP 80. It has the sophisticated features of a full-sized word processor, yet weighs under 20 pounds.

If you'd like to keep your business running as smoothly as possible, Smith Corona may be just the insurance you need.

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# To Sell In Japan, Meet The Japanese

*By Robert C. Dorney*

If there is a lesson I would share with others interested in doing business with Japan, it is this: Get rid of any preconceived notions you may have about Japan, and get to know the people. Japanese and American markets have more similarities than differences.

Two years ago, Ichiro Wachi, a Japanese entrepreneur, called me to learn more about our company, which manufactures products designed to enhance personal productivity. He had used other systems, but his first choice was our Day-Timer system. It is designed to help a person organize information and make the most efficient use of time.

I invited him to visit Day-Timers at our headquarters in Allentown, Pa. In time, the conversation turned to the possibility of marketing our products in Japan. My interest was tempered by skepticism. What could an American tell the Japanese about productivity? Plenty, Wachi said. He reminded me of the work of W. Edwards Deming, the American who taught the Japanese the concepts of statistical control, a mathematical method of measuring improvements in product quality.

Wachi explained that while productivity is a hallmark of Japan's blue-collar workers, a prevalent characteristic of its white-collar workers is their tendency to be workaholics. They generally are not good managers of time, which is why most work 70 hours or more per week.

I wanted to know if the Japanese want to change. Wachi suggested I go to Japan to see for myself. We reached a gentleman's agreement: Wachi would arrange for me to address a number of business groups in and around Tokyo to test the waters. If we decided to proceed, he would be our Japanese representative.

The first point you must remember when you approach the Japanese market comes from "Marketing 101": In order to succeed, you must know your market. The Japanese market is different from that of the U.S. But so is Seattle's different from Miami's.

What I learned was surprising. Though the Japanese are dedicated, they feel guilty about their long hours. They feel they are cheating their families and missing many of life's pleasures. Yet they say there aren't enough hours in the day.

I suggested that good time management could help them focus on their highest priorities, avoid trivia, cut the time they spend in meetings, delegate effectively, and generally work smarter instead of harder.

I made several more trips to Japan and spoke to their "business societies," which are informal groups that meet regularly to hear speakers. The Japanese were most appreciative. They presented me with huge bouquets. We designed a new form for these groups' participants—a grid that they could use to track the time they spent on individual tasks, so they could see when and how they might be wasting time. They eagerly copied the form and used it. They asked me to write a book. I became convinced the market was there.

*Succeeding in a foreign market requires that you know the territory. It can be learned, but it takes time, effort, and a willingness to listen.*

But some problems were still to be overcome. A significant obstacle at the start was the apparent absence of mailing lists, which we needed for our marketing strategy. The Day-Timer system is sold exclusively by direct mail. Then we found that Japanese department stores have enormous lists. Were they for sale? Wachi assured me that everything in Japan is negotiable. High mailing costs and the absence of third-class postage posed another problem, and efforts to solve it are continuing.

The language barrier did not prove nearly as difficult to surmount as we had feared. In fact, the Day-Timer diary/planner we market in Japan is almost identical to the one we sell in the U.S., Canada, and Australia to more than 3 million customers. Everything is in English except the instructions, which are very detailed and precise.

The final point you must remember in doing business in Japan is that you have to allow time. Two full years elapsed between Wachi's first call to me and the time our company started marketing our products in Japan.

Niche marketing paid off for us in Japan. As a U.S. direct marketer, we had to identify that niche. It has turned out to consist largely of Japanese middle managers who are looking for tools that will help them do their jobs more efficiently and reduce their working hours so they can have more time for other interests or family activities. We had to verify that market by sending out a test mailing, and then we had to fill it. We did, and Day-Timers is now a reality in Japan.

Those experts who talk of undifferentiated global markets may be right, but our experience has shown that succeeding in a foreign market requires that you recognize and deal with its special characteristics; you still have to know the territory. It can be learned, but it takes time, effort, understanding, and a willingness to listen.

In that regard, selling to the Japanese market is no different from selling to any other market. ■

*Robert C. Dorney is cofounder and former president of Day-Timers Inc., an Allentown, Pa., company that produces time-management materials, including pocket calendars, desk systems, and custom binders.*

*Readers are invited to contribute to Entrepreneur's Notebook, a forum in which owners and/or managers of smaller to medium-sized businesses discuss their experiences. Write to: Editor,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

MANAGING YOUR BUSINESS

# Direct Line

*Answers to your small-business questions from how to improve your management skills to targeting potential customers.*

ILLUSTRATION: WILLIAM COULTER

### All In The Family Business

I am 28, and I have worked in my father's 30-year-old business for as long as I can remember. Starting at a young age, I did everything from office work to cleaning the bathrooms. I have slowly worked my way up the ladder, and now I'm vice president. I have not been handed the family business on a silver platter.

Recently, however, I have had difficulty managing and supervising some of the employees who are my contemporaries. They have not seen my struggle to get where I am now. How can I overcome these problems and handle those I must hire, instruct, and fire? Where can I get information to help me become a more effective and confident leader in a family business?
*S.V., East Haven, Conn.*

Start by reading the family-business roundup in this issue. It includes a calendar of family-business seminars, as well as tips for managing a family business. For more information, contact the following family-business centers for literature and calendars of seminars:

- Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, 426 Vance Hall, The Wharton School, University of Pennsylvania, Philadelphia, Pa. 19104; (215) 898-4470.
- Family Business Program, College of Business, Oregon State University, Corvallis, Ore. 97331; (503) 754-3326.
- Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44142; (216) 442-0800. On June 14-16 in Cleveland, the Center will sponsor a seminar titled "Managing Succession Without Conflict."

### Wallpaper Designs

I am interested in opening a discount wallpaper store. Where can I get a list of potential suppliers and manufacturers for the central Georgia area?
*R.L., Centerville, Ga.*

*Wallcoverings Magazine* publishes an annual directory of manufacturers, distributors, suppliers, designers, and importers; it is *Wallcoverings Magazines Residential/Contract Directory*. If you would like a copy, send a $25 check (which includes postage and handling) to Jenna Weisberg at *Wallcoverings Magazine*, 15 Bank Street, Suite 101, Stamford, Conn. 06901. A year's subscription to the magazine is $18.

### Shrimp-Farm Start-Up

I would like to establish a shrimp-farming business. Where can I get information?
*M.M., Hawthorne, Calif.*

Contact Ben Drucker at the Aquaculture Department of the National Marine Fisheries Service (a division of the National Oceanic and Atmospheric Administration of the U.S. Department of Commerce), 1335 East West Highway, Silver Spring, Md. 20910; (301) 427-2363. Drucker can provide you with research material, statistics, and other information you need to know to start a shrimp farm.

### Tempting Firms To Use Temps

I recently started a temporary secretarial service. How can I get more sales leads? Also, is it possible to sell franchises to people in another state?
*L.A., Los Angeles*

For leads to small businesses in your area that use temporary help, contact your regional Small Business Administration office, at 350 South Figueroa Street, Sixth Floor, Los Angeles, Calif. 90071; (213) 894-2956. You might also speak about your company's services at meetings of your local chamber of commerce, the Rotary Club, and other business organizations. In addition, a mailing-list broker might be able to sell you a list of area businesses to which you could send information about your service.

To become a franchisor, you must spend time testing your business system to make certain it can be duplicated successfully. Most states have a regulatory agency that requires companies to register before they can sell franchises. A summary of registration requirements for California is available from the Department of Corporations, 600 South Commonwealth Avenue, Los Angeles, Calif. 90005; (213) 736-2741. A franchise attorney or a consultant can guide you through the process.

Many publications on franchising are available through the International Franchise Association. The IFA also sponsors seminars titled "Expanding Your Business Through Franchising." There is one scheduled for Anaheim, Calif., in August. For more seminar details and a publications list, write or call the IFA at 1350 New York Avenue, N.W., Suite 900, Washington, D.C. 20005; (202) 628-8000.

### Crafting Cleaning Contracts

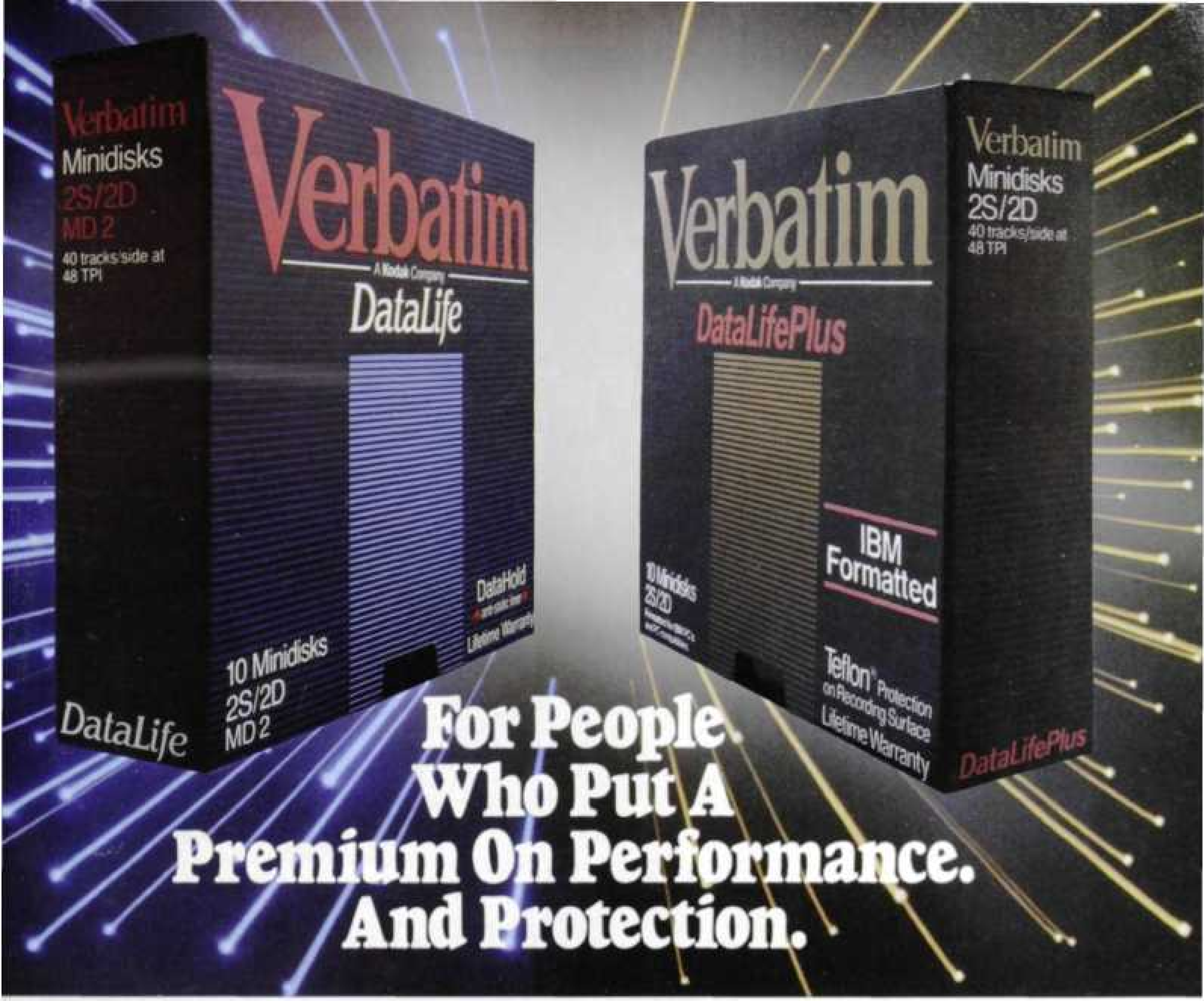
I own a home-based cleaning business. Where can I obtain information on how to figure job estimates and write contracts?
*L.R., Salina, Kans.*

Contact the Building Service Contractors Association International, 10201 Lee Highway, Suite 225, Fairfax, Va. 22030; 800-368-3414. The association will send you a publications catalog, which includes books on how to figure estimates, write contracts, and bid on projects. The catalog also contains details on membership in the association and information on the 50 seminars offered at its convention. NB

## How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

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COMMENTARY

# U.S. Companies Lack Trade Aggressiveness

*By Warren T. Brookes*

Some 25 years ago, a Commerce Department official from the Kennedy administration went to Boston to exhort a gathering of Massachusetts manufacturers to "think international trade" if they didn't want to be left out of the rapidly developing global marketplace.

I was in that audience, and the apathy was palpable. Why should companies serving the world's largest and fastest-growing consumer market spend the time and money and endure the hassles needed to sell overseas? Why indeed?

But the Commerce official's warning was dead on target. In 1963, when the warning was issued, the U.S. enjoyed a merchandise trade surplus of $5.2 billion, the equivalent of more than $16 billion in 1987 dollars. Even without counting food commodities and petroleum, the U.S. was running a $2 billion surplus. By 1987, the U.S. was running a total trade deficit of nearly $170 billion, including a manufacturing trade deficit of more than $146 billion.

In that 24-year period, while U.S. non-agricultural exports rose by 253 percent in real terms, U.S. non-petroleum imports soared by a stunning 511 percent. While foreign manufacturers have been feasting on U.S. markets, U.S. manufacturers have not been getting their share of rapidly expanding global export markets.

It is easy to blame that situation entirely on what economists call exogenous factors—the soaring U.S. dollar in the 1980-85 period, the protectionism of European and Asian markets, and the debt crisis of the less-developed countries, a crisis that curtailed the importing ability of many markets favored by U.S. exporters. Undoubtedly, those factors have been the most crucial.

U.S. companies nonetheless must accept a significant share of the blame for this sharp decline. That was the essential thrust of an important paper presented to the Center for the Study of American Business last November in St. Louis by Robert Lawrence, an economist for the Brookings Institution. He said that "the behavior of U.S. manufacturers is simply not export-aggressive."

Lawrence proved his point by analyzing the contrasting ways in which U.S. exporters and foreign exporters to the U.S. reacted to changes in the exchange rate of the U.S. dollar.

From 1980 to 1985, while the U.S. dollar rose about 50 percent against the currencies of all of our trading partners, the U.S. export price index rose by nearly 46 percent. In other words, U.S. manufacturers simply passed on all but 10 percent of the exchange-rate hike to their export customers. No wonder we lost 30 percent of market share.

To put it another way, the dollar index price rise of U.S. exports was only 2 percent less in that five-year period than the total price rise in the U.S. producer price index, also in dollars. As Lawrence said, "This hardly constitutes an aggressive effort to hang on to foreign export markets by U.S. business."

*While foreign manufacturers have been feasting on U.S. markets, U.S. manufacturers have not been getting their share of rapidly expanding global export markets.*

*Warren T. Brookes is a nationally syndicated columnist on economic issues.*

By contrast, consider what happened when the dollar began to fall, causing the exchange-rate shoe to drop on the foreigners' feet. Since 1985, our trading partners' currencies have risen more than 55 percent against the dollar, and their wholesale price index in dollars has leaped by nearly 60 percent. If their policy toward our markets had been the same as our policy toward theirs, they would have raised their prices to us by more than 50 percent.

But they didn't. Since 1985, they have raised their prices against our wholesale price index less than 9 percent. To put it bluntly, they have swallowed more than 80 percent of the exchange-rate adjustment in an effort to keep their U.S. market share.

This is why the rapid devaluation of the U.S. dollar has produced so much less effect on the trade deficit than most U.S. trade economists had predicted. While it stimulated a strong 29 percent rise in U.S. exports in 1988, that rise has been offset at least partially by a nearly 10 percent rise in imports.

This aggressive behavior by foreign exporters, especially the Asians and the Japanese, has produced American cries of foul play and has renewed charges that other countries are "dumping" their exports into the U.S. market. This undoubtedly will become the theme of a growing number of actions taken by the U.S. under the new "Super 301" section of the 1988 Omnibus Trade Act.

But those charges must be considered against the backdrop of foreign behavior during the run-up of the dollar from 1980 to 1985. During that period, when their currencies fell against the U.S. dollar by more than 45 percent, foreigners cut their U.S. prices by only about 20 percent relative to our producer price index. This means they pocketed a little over half of the favorable exchange-rate differential to use as profits to reinvest in higher productivity and as a reserve against the future.

All this tells us is that foreign traders have been willing to plow back their exchange-rate profits into holding their market share and strengthening their competitiveness.

Indeed, while the nearly 98 percent run-up in the yen versus the dollar sharply slowed down the Japanese economy in 1986 and 1987 and cut into profitability, Japan's manufacturing sector massively reinvested in cost-cutting, and it rebounded strongly in 1988 in both sales and exports as well as in profitability. While their surplus with other nations has been cut sharply by soaring imports from them, it is now rising again with the U.S.

This is a stern reminder that we still have a lot to learn about trading competitively and aggressively—and the time is growing very late indeed. NB

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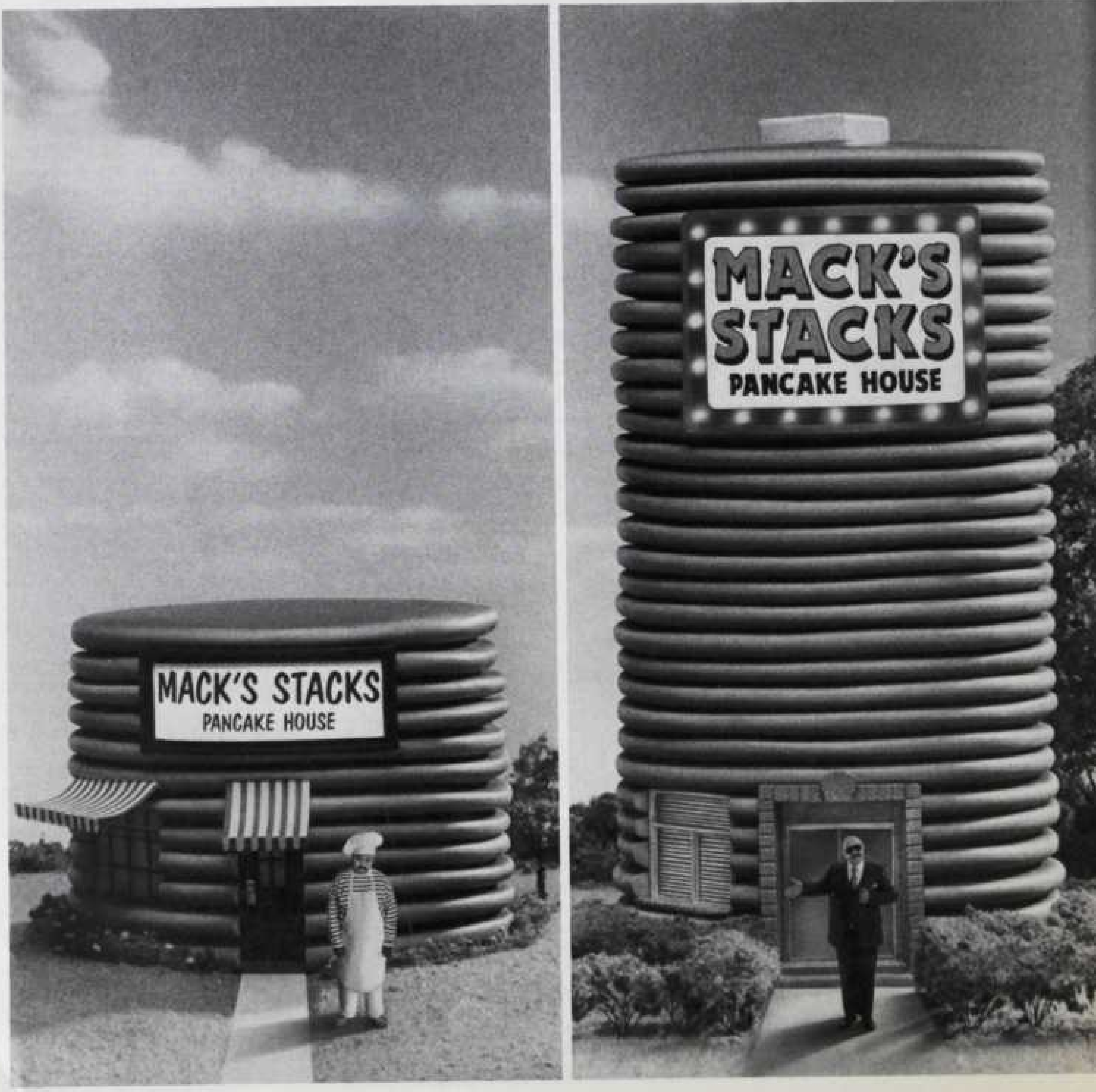

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# Family Business

## Fathers And Sons: No Easy Business

*By Sharon Nelton*

My neighbor was telling me the other day about his brother, a dentist who not only followed in his father's professional footsteps but also joined his dad's practice straight out of dental school. Sam wondered why his father didn't make him a partner immediately, my neighbor recounted, and his father's reply was: "It's taken me 30 years to build this business. You can't come in here and be partner overnight."

Dad complained that Sam took too long with his work. "You'll never make any money that way," he warned. But Sam resisted taking shortcuts to make the work go faster; he wanted to be proud of what he did, he said.


PHOTO: TING CHAO

Sam told his father that he needed to update his old equipment. No way, Dad replied. It worked just fine, and best of all, it was paid for.

After one year, father and son parted ways, agreeing it would be better if they worked separately.

There's no moral to this tale. It's just a reminder of how tough it often is for fathers and sons to be in business together.

An article in a special business issue of *The New York Times Magazine* caught my eye recently. It was an essay by Tory Kiam, the son of Victor Kiam, known nationwide as "the man who bought the company," Remington Products.

In the article, Tory Kiam tells how other employers were unwilling to hire him; they feared that after they trained him, he would go off and join his dad. And so, with trepidation, he accepted his father's invitation to work at Remington.

It hasn't been easy living in Victor Kiam's famous shadow. Tory Kiam says his ego "took a serious beating."

But he describes Victor Kiam as a loving, caring father who said that if Tory felt he was losing his identity and was not enjoying Remington, he would not be pressured to stay. "I'd rather see you happy than have you with the company."

Relationships between fathers and sons in family businesses are often touchy. And now, more and more, we have not only fathers and sons but also mothers and daughters. Very little is known yet about how the growing numbers of women in family firms could further complicate these already complicated family-business relationships.

We don't know how the Kiam story will turn out in the long run, either.

But one thing seems clear. When, like Victor Kiam, a parent invites rather than pressures a child into the business, when the parent and child respect each other and communicate openly, and when the parent can put the well-being of the child ahead of the desire to have that child in the business, the family stands a better chance of a happy ending. And so does the business.

*Sharon Nelton, a* Nation's Business *senior editor, specializes in writing about family firms. She is the author of* In Love and In Business *(John Wiley & Sons, New York).*

## Promote, Celebrate Your Family Ties

*By John L. Ward and Laurel S. Sorenson*

In bold block letters, delivery trucks for Walter E. Smithe Furniture Inc. announce:

**Quality Is a Smithe Family Tradition**
**Walter E. Smithe and Family—**
**Est. 1945**
**Our Family Serving Your Family**
**for Three Generations**

These proud words are also printed on company stationery, envelopes, invoices, and business cards. Advertisements on radio emphasize "Walter E. Smithe *and family*."

Smithe, who has five stores in suburban Chicago, isn't alone in promoting the family as a cornerstone of his company. Painted on a truck of a family-owned rug company are the words, "Third Generation Personalized Service." And an industrial-scale company stamps its brochures with "The Oldest Family-Managed Scale Company."

Savvy business owners realize that in an era of megamergers and impersonal corporate ownership, "family" means a

*John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago and a consultant to family businesses. Laurel S. Sorenson is a Chicago-based writer. They wrote the book* Keeping the Family Business Healthy *(Jossey-Bass, San Francisco).*


ILLUSTRATION: DAVID CHEN

*Family ties can enhance a company's reputation, but they also can spark discord between generations. Approaches for understanding and dealing with such issues are set forth in this family-business roundup.*

personal touch. That's a key competitive advantage—in attracting not only customers but also loyal employees.

" 'Family' means security and trust," explains Walter Smithe, who is president of the company and son of the first Smithe in the furniture business. Publicizing the fact that family members work in the business helps him capitalize on those attributes.

## Telling Your Story

Here are some ways to promote the virtues of being a family business:

**Develop customer creeds and company statements.** Such statements, from snappy slogans to lengthy charters, remind customers and employees that the focus of your business is *family*—with its hallmarks of personal service and long-term commitment.

**Create employee celebrations and traditions.** Celebrating special occasions creates a "family feeling" in the workplace and emphasizes continuity, team spirit, and loyalty.

**Use advertising, stationery, and signs.** These promotional tools usually emphasize the company's length of existence, or its family relationships, or both, and inspire feelings of trust and security among customers.


Traits that come naturally to well-run family businesses are increasingly valued in today's marketplace. Personal treatment is more appreciated as big companies get bigger and more bureaucratic. Continuity of relationships—with employees and customers—is becoming more valued because of the rising numbers of dramatic acquisitions, divestitures, layoffs, restructurings, and leveraged buyouts. Quality, long the mainstay of family firms, is recognized as the key to business success. And local pride grows in importance as corporate ownership becomes more distant, even foreign.

Celebrating these characteristics within the company not only helps nurture them but also encourages employees to feel "part of the family." That strengthens the business' family culture.

For instance, Rhoda Levenson, owner and president of Brenner Paper Products Co. of Glendale, N.Y., takes great pride in an annual tradition at her direct-mail-envelope plant. After the first of every year, some 165 production people gather before a painted mural covering the factory wall, and they look on while the mural is updated. This year, its numbers were changed to read:

**The Brenner Products Family**
**Quality, Service, Workmanship**
**1934-1989**
**55 years**

This tradition, among others, Levenson feels, has contributed to the impressive loyalty within the company's work force: Nearly 40 percent of Brenner's employees have more than 20 years of service with the company. Such an experienced work force is important to a business that produces 5 million to 6 million envelopes daily, within an industry that requires many hard-to-find skills.

It is also important to customers. "They know our receptionist and our service people by name," Levenson says. "Here, they're not just an order number."

Publicly promoting and celebrating such benefits is a far cry from the days when family-business people apologized for their folksy ways and casual structures. Today, they cultivate their family identities.

What a great advantage!

## Mark Your Calendar

**May 4-6, Cassopolis, Mich.**

"The Family Business Experience," a seminar that looks at succession and estate planning and also helps busy founders deal with the question of how to be loving parents. Membership in the Chief Executive Officers Club is required. For information, write or call the Center for Entrepreneurial Management Inc., 180 Varick Street, Penthouse, New York, N.Y. 10014-4604; (212) 633-0060.

**May 10-12, Philadelphia**

"Fathers and Daughters in Family-Owned Businesses: Challenges and Opportunities," a seminar aimed at helping participants overcome the typical dilemmas of father-daughter relationships to become good business teams. Write or call the Family Business Consultancy, 556 North 23rd Street, Philadelphia, Pa. 19130; (215) 751-0396.

**May 16-18, Waco, Texas**

"You, Your Family, and Your Business," a conference covering topics such as transferring leadership to the next generation, family development, and conflict resolution in the family business. Write or call the Center for Entrepreneurship, Baylor University, Waco, Texas 76798; (817) 755-2265.

**June 18-23, Lexington, Va.**

The Washington and Lee Institute for Family Business offers a seminar on such topics as choosing successors, motivating non-family employees, family communication, and strategic planning. Write or call the Institute at Washington and Lee University, Lexington, Va. 24450; (703) 463-8723.

# Soviet TV's U.S. Channel

*By Stephen J. Simurda*

When Pavel Korchagin and Sergei Skvortsov, two senior producers in the international division of Soviet television, Gosteleradio, came to the U.S. recently, the main stop on their itinerary wasn't New York or Los Angeles.

Instead, the producers spent most of their time at the home of Edward Wierzbowski and his wife, Pam Roberts, in the northwestern Massachusetts village of Colrain, population 1,595, near the Vermont border. Roberts, 39, is president, and Wierzbowski, 40, is vice president of Global American Television Inc., a three-person TV production company that specializes in joint ventures with the Soviet Union. They also are the sole U.S. sales agents for commercial air time on Gosteleradio, with a potential audience of 200 million Soviet citizens.

Pepsi-Cola International was the first company outside the Soviet Union to buy commercial air time on Soviet television. Last spring Gosteleradio broadcast six Pepsi ads, including two featuring Michael Jackson, during a series of programs about the U.S. hosted by Soviet commentator Vladimir Posner. Visa International and Sony (Tokyo) also purchased advertising time during the shows.

Pepsi-Cola International bought more advertising time during the Soviet broadcast of the Summer Olympics, and late last year three companies that sponsored a Soviet tour by the New York Philharmonic—Coca-Cola, RJR Nabisco, and Combustion Engineering—agreed to buy ads during the Russian broadcast of one of the orchestra's concerts in Moscow. All the ads were sold by Wierzbowski and Roberts.

Paid TV advertising in the world's oldest communist country? Most people would ask, "What's going on?"

What's going on is *perestroika*, or restructuring—Soviet leader Mikhail Gorbachev's plan for reviving his nation's sluggish economy. But though the plan is Soviet, the actions to implement it sometimes seem entrepreneurially American. When the Soviets needed someone to represent their interests in the U.S. advertising market, they didn't go to Madison Avenue. Instead they went to a New England village, to people they had come to know and trust through years of doing business together.

*Stephen J. Simurda is a free-lance writer in Hadley, Mass.*

*When they sought representatives in the U.S. advertising market, Soviet TV producers Pavel Korchagin (seated at computer) and Sergei Skvortsov (far right) skipped New York and went to a New England village, to the production firm run by Ed Wierzbowski (left) and Pam Roberts, specialists in joint ventures with the Soviet Union.*

PHOTO: © MICHAEL GORDON

When Global American started working with the Soviets in 1982, Wierzbowski admits, "we never knew that we would be selling advertising time."

The couple started doing video production on a part-time basis in 1976, concentrating mostly on documentary programs. Much of their early work focused on social-change movements and the people involved in them. They lived what Roberts calls a "pretty hand-to-mouth" existence until 1981, when some work they did about a strike at a bullet factory in Tennessee was bought and used by "60 Minutes."

That was a turning point. The next year, a friend introduced Wierzbowski and Roberts to organizers of a decade-old exchange program called the Forum for U.S.-Soviet Dialogue, which brings together young people in the two countries. The producers suggested accompanying a group of 30 young Americans on a trip to the Soviet Union and creating a documentary that could be shown in both countries. The Soviets agreed.

"As far as we know, that's the first time there was ever an American-Soviet coproduction," says Roberts. The experience left the couple wanting to do more exchanges with the Soviet Union, and soon they were planning the first of two "Citizens' Summits" between the two nations. These shows linked live audiences in both countries, and they were hosted by Phil Donahue in the U.S. and Vladimir Posner in the Soviet Union.

The second of these shows, filmed simultaneously in Boston and Leningrad, was shown in the U.S. in June 1986. Wierzbowski says he was told that Gorbachev watched the show during its Soviet broadcast and liked it, helping to open the way for more exchanges. In April 1987, Wierzbowski went to the Soviet Union to sign a formal coproduction agreement with Gosteleradio. The agreement was for a full range of programs, from live exchanges to drama shows and films.

As part of that deal, Global American

*How times have changed! Russian communists and a couple of American chroniclers of social change find common ground as new-wave capitalists. Their entrepreneurial efforts are putting programs and U.S. firms' paid advertisements on Soviet television.*

Television was given the rights to sell advertising time to non-Soviet companies that might want to buy commercials during special international productions. Roberts stresses that Global American's first priority remains producing innovative new shows with the Soviets, not selling advertising. "Our main interest," she says, "is to be able to use this to finance programming."

Soviet producer Korchagin doesn't see anything unusual about turning to a small production company to represent Soviet interests in the U.S. advertising market. The agreement with Global American is "just one step in the relationship we had before," he says. "We know each other. We know the potential of each other."

And Soviet commentator Posner, who has worked with Global American several times, says: "Very often we seal our relationship with a handshake, and both sides take that to be as good as any contract.... Trust is a vital, key element."

As for the idea of the Soviet Union selling commercials to some of the world's largest capitalist companies, Korchagin says the decision was based on simple economics. The Soviets, he explains, are eager to broaden their television programming, including producing more shows with an international focus and buying more foreign programs. But Gorbachev's new economic initiatives stress that the government will no longer dole out all the cash for such efforts.

"Since some television productions are quite expensive and they involve a lot of hard currency," Korchagin says, "and we don't have a lot of hard currency as far as the Soviet Union or our institution is concerned, we thought [that] if we do any kind of major coproduction, we would need plenty of cash, and that cash may be given to us if we use commercials."

That cash will be used for projects under way. This year, for example, the Soviets and Global American are producing, among other things, a movie based on the life of Samantha Smith, the young girl who visited the Soviet Union in 1983 after writing a letter to Soviet leader Yuri Andropov and was killed two years later in a plane crash. They also are planning a television special of a Soviet tour by an American rodeo, and broadcasts of meetings of U.S. and Soviet athletes and of factory workers from both countries.

The Soviets also have acquired the rights to broadcast 24 half-hour episodes of "Fraggle Rock," an educational show for children.

> *"Very often we seal our relationship with a handshake, and both sides take that to be as good as any contract.... Trust is a vital, key element."*
>
> —Soviet commentator Vladimir Posner, on doing business with Global American Television

"On all of these," says Wierzbowski, "we have the rights to sell advertising when the shows are broadcast in the Soviet Union."

Some U.S. advertisers say it's premature to buy commercials in the Soviet Union, but if economic changes continue in that country, the opportunity to reach millions of citizens will no doubt become more attractive.

The Soviets also hope the low price of advertising will be an incentive to foreign companies. Global American offered 30-second spots during the New York Philharmonic concert last year for $15,000, just a fraction of the $100,000 or more that prime-time advertising can cost in the U.S.

No one can say for sure whether commercials will become commonplace on Soviet TV, but it is unlikely that Soviet television will ever become a profit-oriented operation, according to Soviet TV producer Skvortsov. Comparing it with American television, he says, "I think it will always be different.... There will be a certain percentage of commercialized programs.... But I don't see that central television will ever become commercial."

So far, American companies remain tentative about their use of ad time on Soviet TV. Pepsi-Cola International, for example, has been doing business in the Soviet Union since 1974 and now boasts 20 Soviet-owned and operated plants across the country, yet the company is making no commitments. Barry Holt, spokesman for Pepsi-Cola International, in Somers, N.Y., describes the purchase of air time as "pretty much of an experimental thing at this point."

Stephen A. Greyser, professor of marketing at the Harvard Business School, says that there is no way to measure how effective Soviet advertising is for an American company. "No one knows what the effects will be." While the commercials initially will draw viewers out of curiosity, he says, the key to whether they are cost-effective will be how well a company can get its product into the hands of the average Russian.

"If you have a very limited distribution," Greyser says, "it may be very great to have a lot of people know your name, but unless they can translate that into something that has greater marketplace value than that, it won't be such a great deal."

Skvortsov insists it is not too early to begin such groundwork in his country. "We do not feel that this is too early. We feel that this is exactly the right time because in two years the market in the Soviet Union will be there. So you should start working on your image right now," he says.

Such speculation about advertising doesn't take up much time for Wierzbowski and Roberts, however. They focus on other parts of their future, particularly their possible joint productions with the Soviets. New shows being discussed include an American-style game show and a rock concert this summer in Leningrad.

Roberts says she thinks what they are doing now can help U.S.-Soviet relations. "A key to having a good relationship with the Soviet Union is to trade with them," she says.

Besides, says Wierzbowski, "I'd rather see us trading sugar water with them than bombs." NB

COVER STORY

# "Government Gone Crazy"

*By Roger Thompson*

ILLUSTRATION: DALE GLASGOW

It was the end of another long day for Steven Ferruggia, whose mastery of a new, perversely complex federal benefits law has generated more consulting business than he can comfortably handle. His students—42 business owners, benefits managers, lawyers, and consultants—had paid $195 apiece for an all-day workshop at Boston's Logan Airport Hilton. Participants had flown in from across New England and from as far away as Houston.

Ferruggia and two colleagues from New York-based Buck Consultants performed feats of verbal alchemy, laying out in clear English what Congress had cloaked in turgid prose. But no amount of explaining would relieve the sense of quiet desperation that pervaded the room. Puzzled looks and furrowed brows revealed by expression what went unspoken: This time, Congress had gone too far.

"I think this law will cause a lot of small employers to dump their benefit plans," Ferruggia said in a private moment after the workshop. "It's big government gone crazy," said Edward Maguire, a consultant with Sapers & Wallack in Cambridge, Mass.

The law in question is Section 89 of the federal tax code, one of several provisions that affect employee benefits and were added by the 1986 Tax Reform Act but were not effective until Jan. 1, 1989. Section 89 sets stiff tax penalties for employer-paid health insurance, life insurance, and other nonpension employee benefit plans that favor higher-paid workers.

Businesses that discriminate in favor of higher-paid workers have two choices: broaden and/or extend coverage to lower-paid workers or report the "discriminatory" portion of the higher-paid workers' benefits as taxable income.

Also effective Jan. 1 was another tax-law change that, while it has not drawn as much criticism as Section 89, could

# *A misguided attempt by Congress to make benefits fairer for lower-paid workers puts employee plans at risk because many smaller companies—as they discover the complexities of compliance—may be discouraged from offering benefits at all.*

Nation's Business
BENEFITS BLUNDER

prove no less burdensome to some employers. The change requires employer-provided retirement plans—including pension, profit-sharing, and so-called 401(k) savings plans—to meet rigid tests for fairness to workers who are not in the "highly paid" category defined in the law. Failure to comply with minimum coverage and participation requirements could result in loss of tax-favored status for both the plan sponsor and the plan participants. (See box on Page 24.)

Taken together, the new requirements imposed by Section 89 and the new pension-plan rules represent Congress' deepest penetration yet into the employer-provided benefits system. Experts say the two provisions encompass more changes and affect more plans than even the sweeping 1974 Employee Retirement Income Security Act (ERISA). That law placing intricate controls on employer-provided pension plans marked Congress' first concentrated attempt to regulate private-sector employee benefits. Since then, the lawmakers have amended and expanded employee-benefits laws almost annually, often to the confusion and dismay of employers.

In enacting Section 89, Congress said its goal was the extension of benefits, especially health insurance, to millions of lower-income workers who are inadequately covered or not covered at all. Under the law, part-time employees who work as few as 17.5 hours a week must be included in calculations to determine whether plans are discriminatory.

The congressional Joint Committee on Taxation explained its intent this way: "The [Section 89] non-discrimination rules should require employers to cover non-highly compensated employees to an extent comparable to the coverage of highly compensated employees."

But those who are familiar with Section 89 contend that it will have the opposite effect. "It will tend to decrease flexibility and increase administrative costs," says Frederick J. Krebs, manager of business and government policy for the U.S. Chamber of Commerce. "The effect will be fewer benefits and fewer businesses offering benefits."

"When you look at the cost of compliance, it's just not worth it," says Garry Jerome, a consultant with Mercer Meidinger Hansen Inc., in Philadelphia.

Many major industrial companies expect to spend more than $1 million on compliance costs. An employer with 500 workers can expect to pay upwards of $25,000 for a consultant. A firm with 200 workers could pay $10,000 or more. Small companies may have trouble finding advice for less than $1,000.

The high price of compliance is driven by the law's complexity. Section 89 is an administrative nightmare because it takes what appears to be a simple health plan—like those offered by many small companies—and multiplies it into several plans for testing purposes. Take a medical plan that offers coverage for single workers, workers with children, and workers with spouses, with each option offering two different deductibles. Under Section 89, that plan becomes six plans, and each

*Lobbyists mill around outside the congressional conference committee during its marathon sessions on the Tax Reform Act of 1986.*

> ***If King George and Parliament had come up with anything like Section 89, it wouldn't have taken seven years to win the Revolutionary War.***
>
> THOMAS VEAL
> TOUCHE ROSS AND CO.

PHOTO: © RICK FRIEDMAN—BLACK STAR

*It's big government gone crazy.*

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SAPERS & WALLACK

must meet the non-discrimination tests. Some major corporations with multiple plants and various benefit packages will have hundreds of plans to test.

Because the chances of failure to comply increase with the number of options available to employees, many employers will feel pressure to cut back on choices now available and steer clear of providing new ones.

The enormous complexity of Section 89 has prompted its critics to speculate that Congress was more interested in raising revenue than expanding benefits. "It's really a revenue statute dressed up to look like a do-gooder statute," says Howard C. Weizmann, executive director for the Association of Private Pension and Welfare Plans.

The joint tax committee estimates that Section 89 will net about $300 million a year in revenue derived largely from treating a portion of higher-paid employees' benefits as taxable income. But Congress may have greatly underestimated the law's impact for two reasons.

First, lawmakers may have been too optimistic about the law's ability to persuade employers to extend benefits to lower-paid employees. Kent A. Mason, the law's chief architect, told a health-care seminar in December that in most cases, employers will count any discriminatory excess benefits as income to highly paid workers and will "gross up" those employees' salaries—that is, increase their salaries to cover the newly taxable portion of benefits. "This option is much cheaper than extending benefits to low-paid workers," said Mason, who was counsel to the joint tax committee and now works for the Washington law firm of Caplin & Drysdale.

Second, widespread non-compliance would produce huge amounts in unanticipated tax penalties, warns Mary Hevener, a benefits attorney with the Washington law firm of Lee, Toomey & Kent. Employers who fail to comply with the non-discrimination rules will pay a tax penalty, calculated at the highest individual tax rate, on the benefits received by the highly compensated.

In addition, employees will be taxed on any benefits they receive if the employer fails to maintain a so-called qualified plan, which entails compliance with another set of rules similar to those already applied to pension plans.

Ferruggia and other consultants should be delighted about Section 89. Washington insiders regard it as a consultants' full-employment act. But consultants find themselves in the uncomfortable position of serving as shock troops for advancing a law that almost nobody can believe Congress actually passed.

Pat Haines, senior consultant in the Philadelphia office of the Coopers & Lybrand accounting and consulting firm, says the general reaction she gets from business audiences is, "I can't believe this is happening."

"I think if we are going to cause another American Revolution, Section 89 is it," says Thomas Veal, senior tax manager with Touche Ross and Co. in Washington. "If King George and Parliament had come up with anything like Section 89, it wouldn't have taken seven years to win the Revolutionary War."

In fact, Section 89 slipped through the tax-reform process with little notice. "No one focused on benefits changes" in the 1986 tax-reform legislation, said a Senate aide. "They just sort of happened."

*Continued on Page 24*

# How To Comply With Section 89

Section 89 of the Internal Revenue Code denies tax-favored treatment of employer-provided benefit plans that discriminate in favor of employees who are highly paid. The law became effective Jan. 1 and applies to all employers, public and private. Only churches are exempt.

The law has two distinct parts: qualification rules similar to those for pension plans, and non-discrimination rules. The qualification rules are less difficult to handle but more onerous in their penalties. These rules apply to all tax-favored employee benefits.

There are five tests for maintenance of a "qualified" plan. It must be in writing, employees' rights must be legally enforceable, employees must be notified of the plan's benefits, the plan must be exclusively for employees, and the plan must be maintained indefinitely. Employers have until Dec. 31, 1989, to put the necessary documents in order, but they must operate the plan in accordance with its provisions from the beginning of the year.

Failure to meet any of the qualification requirements carries severe penalties in the form of extra taxes for employer *and* employees. All employees will be taxed on the payouts they receive from an employer-provided plan. For example, if the company's health plan pays out $50,000 on behalf of an employee with a catastrophic illness, that money becomes taxable income to the employee.

In addition, employers who fail to report benefit payouts on employees' W-2 forms must pay an excise tax on the total payouts, calculated at the highest individual tax rate.

The non-discrimination rules form the heart of Section 89 and apply only to employer-provided health-care, accident, and group life-insurance plans. These rules pose the toughest compliance problems.

Before testing for discrimination, an employer first must assemble a considerable amount of data, including the number of the company's highly compensated employees, the number of employees excluded from testing, and the number of benefits plans subject to testing.

For the typical small business, highly

Source: The Hauck Companies

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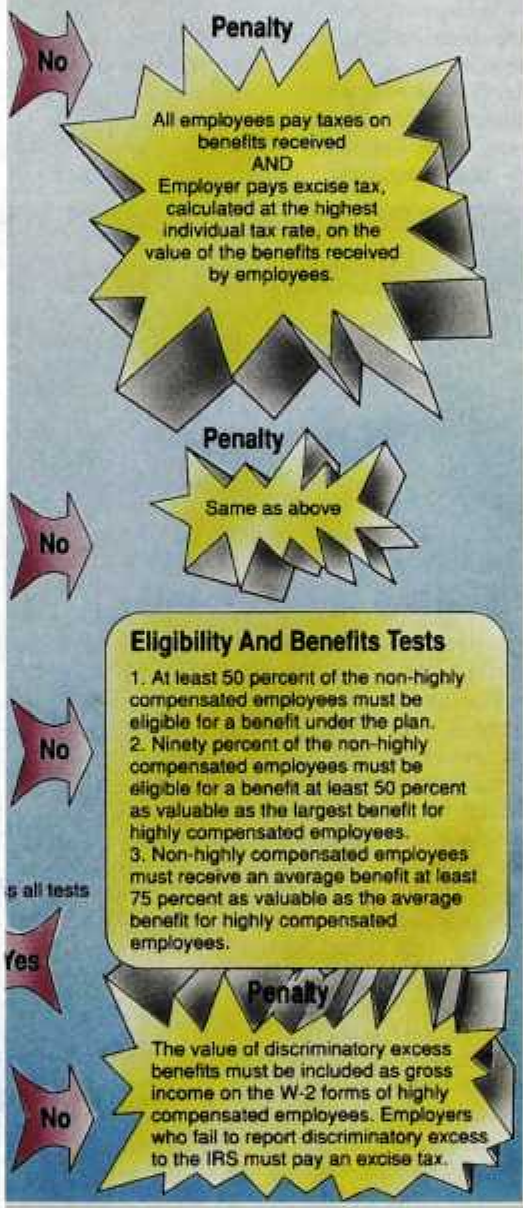
# Section 89 At A Glance




sated employees.

*50 Percent Eligibility Test.* At least 50 percent of non-highly compensated employees must be eligible for a benefit under the plan, or the percentage of eligible highly compensated employees is no higher than the percentage of eligible non-highly compensated employees.

*75 Percent Benefits Test.* Non-highly compensated employees must actually receive an average benefit at least 75 percent as valuable as the average benefit for highly compensated employees.

Cafeteria plans, which allow employees to choose among several options for health and other benefits, are subdivided and tested like any other plan. Each option is a separate plan for testing purposes. Benefits provided through salary-reduction plans also are treated as separate plans for testing.

There is no penalty imposed on the employer for maintaining a discriminatory plan. But the employer must determine the amount of discriminatory excess received by the highly compensated employee and report it to the employee and to the IRS as taxable income. If an employer fails to report the discriminatory excess to the IRS, the penalty is an excise tax, calculated at the highest individual tax rate, on total benefits received by the highly compensated employees.

Employers pass or fail the non-discrimination tests based on the benefits available on any one day in the 1989 plan year. For 1989, employers may choose the last day of the year to perform the tests.

### Do You Have Questions?

If you want to ask us questions about Section 89, we'll answer them in future issues of the magazine. Write to us at *Nation's Business*, Section 89 Question, 1615 H Street, N.W., Washington, D.C. 20062.

PHOTO: RICK FRIEDMAN—BLACK STAR

*It's big government gone crazy.*

EDWARD MAGUIRE
SAPERS & WALLACK

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For the typical small business, highly

compensated employees are those who are 5 percent owners or who earned at least $52,235 in 1988. The dollar amount will rise yearly to reflect inflation.

Excluded from testing are employees under age 21, anyone who works less than six months a year, anyone who has not completed a year of service (or six months of service for core health benefits), anyone who works less than 17.5 hours a week, and employees subject to collective-bargaining agreements.

Some small businesses—those with nine or fewer employees—may take three years to phase in coverage of part-time employees, defined as those who work at least 17.5 hours a week.

If an employer provides benefits to even one person in an excluded group, the exclusion is denied, and everyone in that group must be included in testing.

For testing purposes, a benefit plan may be viewed as more than one plan. Each variation in coverage, employer or employee contribution, copayment, or deductible creates a benefit plan that must be tested separately. For example, a medical plan that offers single-person and family coverage and two levels of deductibles is actually four different plans for testing.

Employers have two ways to prove that their plans do not discriminate:

- **80 Percent Coverage Test.** This is the less complex of the two methods. A plan passes this test if 80 percent of the employees who are not highly compensated actually receive coverage.
- **Eligibility And Benefits Tests.** As an alternative, an employer may show that the company's plan passes each of the three following tests:

*90 Percent-50 Percent Eligibility Test.* Ninety percent of the non-highly compensated employees must be eligible for benefits at least 50 percent as valuable as benefits for highly compensated employees.

*50 Percent Eligibility Test.* At least 50 percent of non-highly compensated employees must be eligible for a benefit under the plan, or the percentage of eligible highly compensated employees is no higher than the percentage of eligible non-highly compensated employees.

*75 Percent Benefits Test.* Non-highly compensated employees must actually receive an average benefit at least 75 percent as valuable as the average benefit for highly compensated employees.

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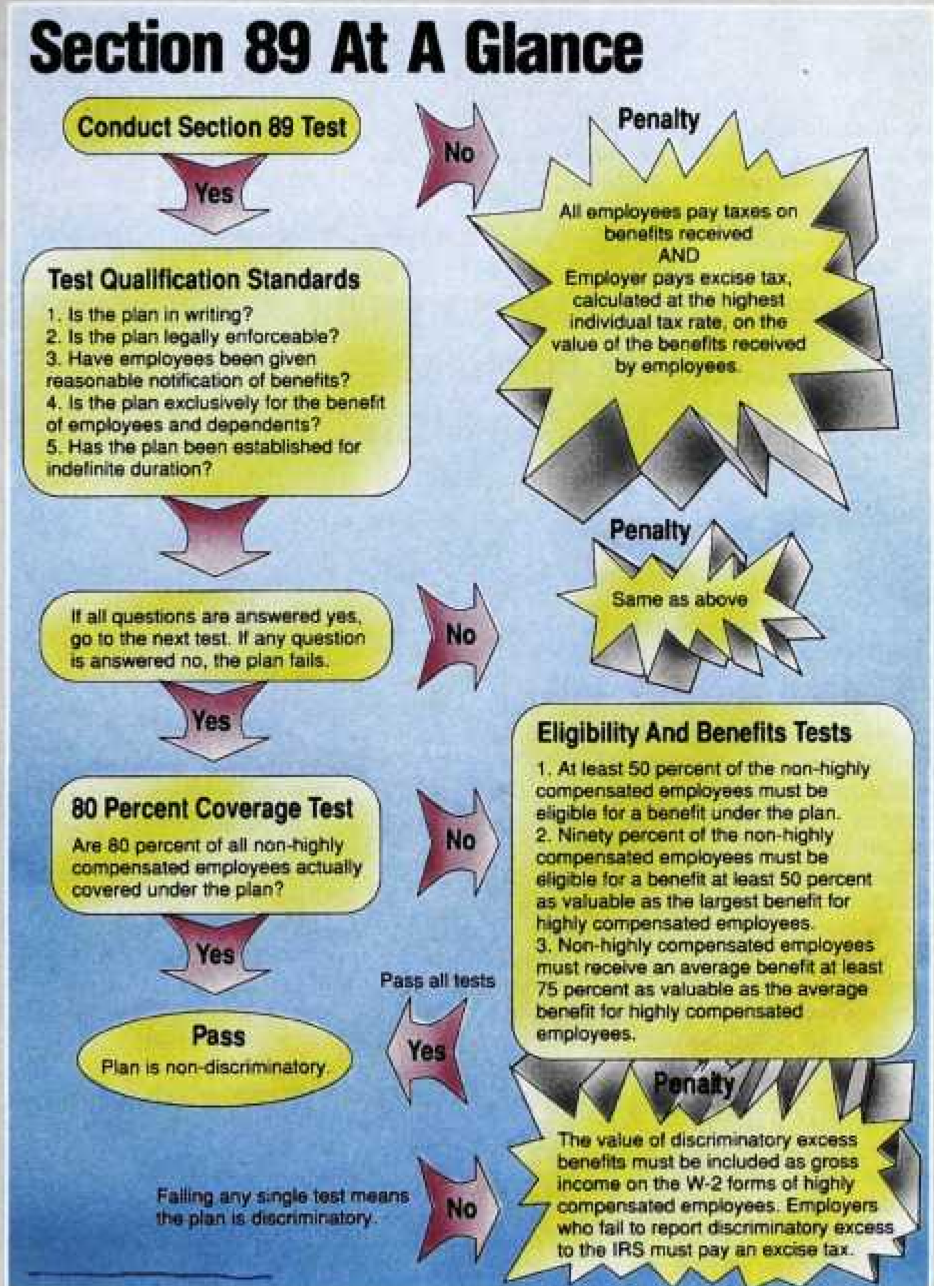

CHART: MARCY MULLINS

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*Continued from Page 22*

Now, many employers are dragging their feet on compliance, waiting for it to collapse under its own weight. "We are hearing from employers who are predicting that Congress will repeal Section 89 sometime in [1989] after the outcry [over its complexity] begins," says Ken Feltman, executive director of the Employee Council on Flexible Compensation. He estimates that 60 percent of all businesses, primarily small companies, have not yet heard about Section 89, making ignorance of the law a major obstacle to compliance.

While large and midsized firms typically are staffed to keep abreast of changes in benefits laws, many small firms don't have the facilities to do so.

Observes Donald Utter, owner of Medical Personnel Pool, in Madison, Wis.: "It's the one secret that the government has been able to keep. Almost every small-business person I mention it to doesn't know what I'm talking about."

But small-business owners shouldn't assume that Congress will come to the rescue. Section 89 has powerful friends on Capitol Hill, including the two key

## New Rules May Force Rewriting Of Pension Plans

Employer-sponsored retirement plans, starting this year, could be denied tax-favored status unless they meet strict new standards for fairness to lower-paid workers. To avoid severe financial penalties for themselves and their employees, many firms will have to revise their pension plans, especially sections covering eligibility requirements and methods of determining benefits.

The new rules, part of the Tax Reform Act of 1986, will hit some small businesses especially hard. Many small firms with few employees lack the flexibility to set up distinct pension programs that will satisfy new minimums for employee participation and coverage.

Some plans whose benefits are integrated with Social Security, sometimes to the disadvantage of lower-paid employees, will have to be revised or scrapped. Other plans will be affected by changes in the definition of highly compensated employees and by curbs on plans that provide generous benefits to only part of an employer's work force. The law defines as highly compensated the owners, part owners, and certain other company decision makers as well as employees currently paid more than $52,235 a year.

"Many employers will have to reformulate their programs from the ground up—a process that is likely to be time-consuming and may require high-level management decisions," says Thomas Veal, senior tax manager in the Washington Service Center of the accounting firm of Touche Ross and Co.

Small firms particularly may lack expertise and have to rely on expensive consultants to see that their pension plans meet these new requirements:

- **Participation.** A plan must benefit at least 50 employees, or at least 40 percent of all employees—whichever number is lower.
- **Coverage.** A plan must satisfy at least one of the three following minimum tests: (1) It covers at least 70 percent of all employees who are not highly compensated. (2) The number of covered employees who are not highly compensated equals at least 70 percent of the number of highly compensated employees who are covered. (3) At least 70 percent of all employees must benefit, and the average benefit for employees who are not highly compensated must be at least 70 percent of that for highly compensated employees. All of a company's tax-qualified retirement plans, including profit-sharing and 401(k) plans, must be included when determining each participant's average benefit.
- **Integration.** Employers previously could treat their retirement plans and Social Security as a single, integrated plan in determining whether overall retirement income unduly favored higher-paid employees. New benefit formulas will sharply limit integrated plans, forcing many firms to raise benefits for lower-paid employees or reduce benefits for higher-paid employees.

Plans operating on a calendar year were supposed to have been in compliance with the new standards by Jan. 1, others by the start of their own 1989 plan years.

Even so, most employers have not yet tested their plans for compliance, much less revised them to conform with the new rules. One often-cited reason for not acting is the Internal Revenue Service's own delay in drafting regulations explaining how it will apply the law in various situations. As of Jan. 1, the IRS had released only its proposed regulations for integrating pensions with Social Security. Some experts speculate that the rest of the regulations, affecting the most controversial aspects of the new law, may not be ready for months.

Congress last year refused requests from business to delay the law's effective date. It did, however, recognize the difficulty of interpreting the new rules by absolving from penalty those plan sponsors who, in the absence of regulations, make "good-faith" efforts to follow the law's intent. "We did not get the delay that we wanted, and some people may still be in violation of the rules when the actual regulations come out," says David L. Wray, president of the Profit Sharing Council of America, which promotes profit sharing as a practice. "But at least people are off the hook for now."

However, experts say that plan administrators by now should have examined their companies' programs to determine, as best they can, whether the plans pass Congress' new fairness tests.

"I tell clients to take the worst-case scenario, just so there won't be any surprises when the regulations are issued," says Roy K. Sinclair, senior vice president of Booke & Co., an employee-benefits consulting firm in Winston-Salem, N.C.

Veal of Touche Ross sees a silver lining in the new rules for some employers. "The biggest problem," he says, "is going to be in sitting down and thinking out what the company's retirement objectives are and what it is trying to do in its pension, profit-sharing, 401(k), or whatever. That's probably a useful exercise. Some companies may discover that they'll be better off, because they've been going along for years with plans that didn't make any sense for them, that they'd just been throwing money into them without doing anything that the employees considered valuable."

*—Donald C. Bacon*

PHOTO: © RICK FRIEDMAN—BLACK STAR

*I think this law will cause a lot of small employers to dump their benefit plans.*

STEVEN FERRUGGIA
BUCK CONSULTANTS

figures behind the 1986 Tax Reform Act—Rep. Dan Rostenkowski, D-Ill., chairman of the House Ways and Means Committee, and Sen. Bob Packwood, R-Ore., ranking minority member of the Senate Finance Committee.

The law reflects a longstanding concern among many lawmakers that the federal government doesn't have enough control over who gets tax-exempt, employer-paid benefits, according to staffers on the tax-writing committees. The joint tax committee estimates that employer-provided health-care plans alone cost the government $32 billion a year in "lost" revenue.

That kind of money, Congress decided, should produce better social-policy results, namely health insurance for lower-paid workers. Section 89 was driven by the perception that many employers were giving their highest-paid employees generous benefits while giving their lower-paid employees less or nothing at all. Supporters of this view note that 52 percent of the 37 million Americans who have no health insur-

## The Ever-Tightening Federal Grip On Employee Benefits

Congress' grip on private companies' employee benefits has grown increasingly firm since 1974, as shown in the following legislative chronology.

*1974. Employee Retirement Income Security Act (ERISA).* Established minimum participation, vesting, funding, and termination standards for employer-sponsored pension plans. Mandated prefunding of pension benefits. Prohibited pension plans, or sponsoring employers, from reducing benefits to recipients. Created the federal Pension Benefit Guaranty Corp. (PBGC), funded by employers, and set an annual premium of 50 cents per participant—paid by employers—to insure private-sector pension plans.

*1980. ERISA Amendments.* Tightened funding requirements and limited federal liability for multiemployer pension plans covering some 8 million workers in the construction and other industries. Established standards governing the merger or transfer of multiemployer plans. Allowed employers' annual premiums to the PBGC to rise to $2.60 per pension-plan participant.

*1982. Tax Equity and Fiscal Responsibility Act (TEFRA).* Set limits on benefits in "top-heavy" pension plans in which key employees accrue more than 60 percent of benefits. Imposed special rules to assure minimum coverage, faster vesting, and other benefits for pension-plan participants who are not key employees. Revised requirements governing integration of pension-plan benefits with Social Security. Amended the rules for computing the share of employer-paid group life-insurance premiums to be included in an employee's adjusted gross income.

*1984. Retirement Equity Act.* Made 21 the age at which employees must be allowed to enroll in pension plans; the minimum age for many plans had been 25. Required employers to begin counting at age 18, instead of 22, an employee's years of service for pension vesting. Permitted employees to leave a job for five years—longer in some cases—and return without losing pension credit. Barred pension plans from counting a one-year maternity or paternity leave as a break in service.

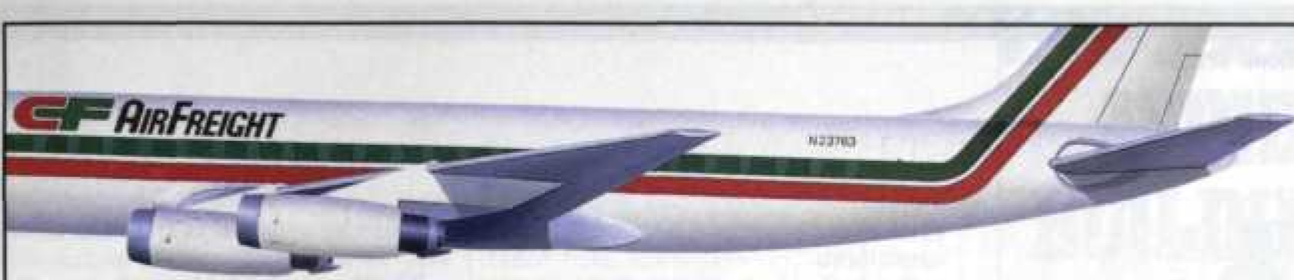
*1984. Deficit Reduction Act.* Sharply curtailed the tax advantages of voluntary employee trust funds, the primary mechanisms available to employers for prefunding retiree health benefits.

*1985. Consolidated Omnibus Budget Reconciliation Act (COBRA).* Required employers with more than 20 employees to make available health-care coverage for up to 18 months to employees who leave the company for any reason other than gross misconduct. Also extended coverage to widows, divorced spouses, and some dependents for up to 36 months. Raised the employer's annual premium to the PBGC to $8.50 per worker.

*1986. Tax Reform Act.* Established comprehensive non-discrimination rules for coverage and participation in employee plans for health, life insurance, and other welfare benefits. Made sweeping changes in rules affecting coverage, participation, and vesting of tax-favored private pension plans. Tightened rules governing 401(k) programs. Restricted tax-deductible contributions to 401(k) plans and Individual Retirement Accounts (IRAs).

*1987. Omnibus Budget Reconciliation Act (OBRA).* Stiffened ERISA requirements for advance funding of employer-sponsored pension plans. Required employers to begin prefunding tax-qualified pension plans quarterly, instead of annually, starting in 1989. Boosted employer premiums to the PBGC to $16 per worker.

*1988. Technical and Miscellaneous Revenue Act.* Included, among hundreds of technical corrections and clarifications to existing tax law, multiple substantive changes affecting the rules applying to virtually all statutorily recognized employee benefits. Eased slightly some of the most controversial non-discrimination rules, enacted in 1986, covering employee welfare and pension benefits.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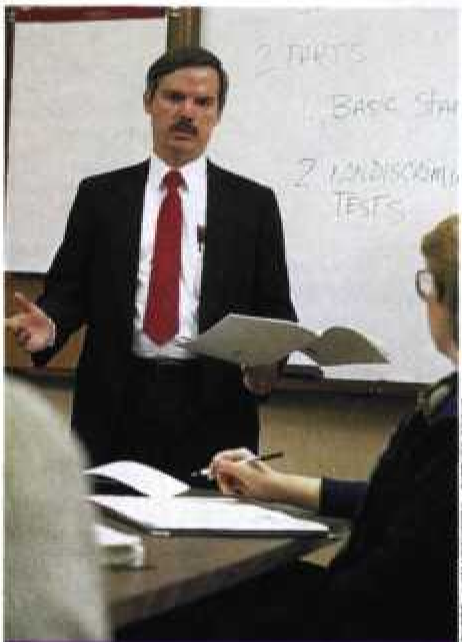


PHOTO: JIM HEEMSTRA—PICTURE GROUP

*To expect small business to understand Section 89 is . . . ludicrous.*
RON DANILSON
PRINCIPAL FINANCIAL GROUP

ance either work full time or are members of families headed by full-time workers. Accordingly, Congress cracked its tax-policy whip, forcing employers to fall into line or risk losing a tax subsidy for highly paid workers. Said one congressional staff member who worked on the legislation: "Why should the government be satisfied that blue-collar workers are getting less than white-collar workers?"

Business owners generally have no quarrel with Congress' intent. It's the execution that has benefits managers throwing up their hands in frustration.

Most large and midsized companies have turned to outside consultants for assistance. Small firms may find they have no other choice, says Feltman, of the Employee Council on Flexible Compensation. "In the end, what we have is a technician's dream and a layman's nightmare," he adds, explaining that Congress made Section 89 "so complex that the traditional expert that the small-business owner has relied on, his insurance broker, is no longer an expert. Now he'll have to go to higher-priced talent: lawyers, accountants, and consultants."

Reed Creaser, secretary/treasurer for General Crane and Hoist Inc., in Richmond Hill, Ga., already knows what it's like to ask questions and get no answers. "I've asked several insurance companies to send me what they have on Section 89, but nobody has sent me anything yet. The individual agents seem to be as much in the dark as we are," he says.

Whether individual employers discriminate or not, the law puts the burden of proof on them. Collecting and analyzing the data needed on each employee frequently may cost more than correcting any discrimination that is found. In fact, an employer may sink thousands of dollars into data collection

## Employers' Payroll Costs For Employee Benefits

The yearly cost of private-sector employee benefits climbed in 1987 to an average $10,708 per full-time worker, compared with $10,283 the year before, according to *Employee Benefits 1988*, a new U.S. Chamber of Commerce survey of large, midsized, and small businesses. Average employee benefits as a percent of payroll dipped slightly to 39 percent in 1987 from 39.3 percent in 1986, the survey found. The decline, the Chamber said, indicated that benefits are rising but at a slower pace than pay.

"The study of employee benefits issues is more than just a matter of idle curiosity," said Richard W. Rahn, vice president and chief economist of the Chamber.

"In the past year a number of bills have been introduced in Congress that would mandate employers to provide health-care, parental-leave, and other benefits at federally mandated levels. With the information provided in this survey, employers can determine the impact of such legislation by analyzing the cost of providing benefits to their employees and by understanding the full cost of an individual employee."

Health insurance was the most widely provided voluntary benefit reported. Ninety-nine percent of the companies indicated at least some payment toward employee health care. The only benefits as widely available to employees were the legally mandated ones—Social Security, unemployment compensation, and workers' compensation.

Hospital, dental, and other medical coverage cost employers an average $2,189 per worker in 1987, virtually unchanged from $2,184 the year before. Stringent cost-containment programs, begun in 1987, helped keep down such expenditures despite a 6.6 percent jump in medical costs generally, a Chamber spokesman said.

Benefits varied significantly among industries, with costs in dollar value and as a percent of payroll generally higher among manufacturing firms than among service-sector firms. The Chamber noted, however, that service firms are increasing their benefits at a faster clip than manufacturing firms.

Sharp regional variations in benefit costs also appeared. Companies in the East North Central area, home of many older companies with huge liabilities for retirees' pensions and health-care benefits, paid more than 44 percent of payroll on employee benefits in 1987. In other regions, outlays ranged from 36.2 percent of payroll in the Northeast to 39.2 percent in the Southeast.

Payment for vacations, holidays, and other leave appeared to be the fastest-growing employee benefit, averaging 11 percent of total payroll cost in 1987, up from 10.2 percent in 1986. The survey turned up a trend in the paid-leave field: Some firms have begun offering employees a fixed number of leave days each year to use as they like for vacations, holidays, and sick leave.

As in previous years, larger companies reported higher expenditures for employee benefits than did smaller companies. The highest amount—39.5 percent of payroll—was paid last year by companies with 5,000 or more employees. Firms with 10 to 49 employees paid the lowest, 31.9 percent of payroll.

*Employee Benefits 1988* is the 26th such survey by the Chamber. Originally biannual, it has been conducted yearly since 1979. For a copy, send $20 to Employee Benefits, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062, or call (301) 468-5128.

*—Donald C. Bacon*

and analysis just to show that no discrimination exists.

Among the law's data requirements are those that compel employers to:

- Identify the highly compensated and the non-highly compensated.
- Determine who may be excluded from the tests.
- Identify each benefit that must be tested.
- Sort out the family status of employees for separate family coverage testing.
- Determine the number of former employees subject to testing.
- Determine whether parts of an organization can be tested as a separate line of business.

Once the information is assembled, it isn't enough to show that coverage was offered. Benefit plans will be judged by the percentage of employees who actually participate.

The Section 89 Coalition, a group of 190 associations and businesses, lobbied unsuccessfully last year for a one-year delay in Section 89. The coalition's efforts were motivated in part by the Treasury Department's failure to produce regulations to implement the law. But Congress was in no mood to start chipping away at tax reform, especially when delay would add $300 million to the federal budget deficit.

"The coalition met very heavy resistance from Rostenkowski," said Christine Hartoft, a legislative assistant with the Association of Private Pension and Welfare Plans. "He wasn't interested in anything that would make it look like tax reform was unraveling."

Nonetheless, the Technical and Miscellaneous Revenue Act of 1988, signed into law Nov. 11, did contain some of the coalition's recommendations for simplifying the law. Among them:

- Employers may test their benefit plans for compliance with non-discrimination rules on one day of the year; they do not have to track each benefit choice by each employee for each day of the year.
- Benefit plans will not fail the non-discrimination tests simply because too many employees choose to be covered by their spouses' plans.
- Companies with nine or fewer workers may phase in coverage for part-time employees, those who work at least 17.5 hours a week, over three years.

The latter two changes are major concessions to the concerns of small companies, says Ron Danilson, assistant director of group operations with the Principal Financial Group of Des Moines, Iowa. A 1988 company survey of 100 employers with fewer than 10 workers found that up to 70 percent would fail, primarily because of the initial participation requirements for part-timers and workers covered by a spouse's insurance plan.

But even with the changes, the law and the monumental problems it poses for employers remain basically intact. "To expect small business to understand Section 89 is absolutely ludicrous," says Danilson. Others who have studied the revisions still don't like what they see.

"It seems to me that if a company is considering putting in a health-care plan, and they run into this, they will just forget it," says Frank L. Mason, president of the Mason Corp., a Birmingham, Ala., manufacturer of metal building products.

"It's just too much of a burden to keep up with all the detail and still run a business," he adds. "You can just load a small-business wagon so full, and when you get beyond that, something has to give." NB

*To order reprints of this article, see Page 60.*

## For More Information

The U.S. Chamber of Commerce has prepared two booklets that explain Section 89 for employers. "Nondiscrimination Rules for Employee Welfare Benefit Plans," a 27-page publication, includes footnoted legal citations. For a copy, write to Hugh McCahey, Manager, Association Department, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062. Ask for Publication No. 0123. The prices are $5 apiece for the first nine copies, $4 each for 10-99 copies, and $3 each for 100 or more copies.

A more concise explanation is contained in the Chamber's publication entitled "A Brief Explanation of Section 89 of the Internal Revenue Code." For a free copy, write Section 89, Employee Relations Policy Center, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062.

SPECIAL REPORT

# Office Machines: More, Better, Cheaper

*By Jon Pepper*

An entrepreneur with no more office equipment than an old typewriter and a telephone may still find it possible to start a business and succeed. It's just extremely unlikely.

More and more, business owners' offices—at work or at home—now include a full complement of electronic accessories that only a few years ago would have been unimaginable except in the headquarters of corporate giants.

While not every business can afford a voice-mail system, a lap-top computer, a laser printer, and a color copying machine, even the smallest operations are discovering that basic desktop computers and facsimile machines are within their price range.

High technology is definitely on your side in the office, and its power increasingly can be harnessed to improve productivity at an affordable price. And the trend seems likely to continue.

In this roundup, *Nation's Business* looks at a sampling of some of the types and the approximate costs of office equipment that can enhance the operation of your business.

*Jon Pepper is a free-lance journalist and computer consultant in Sunderland, Mass.*

## Everything Imaginable In Office Copiers

Contrary to the opinion of many technology buffs, personal computers have not eliminated the need for paper in an office, and they probably never will. Industry-founder Xerox remains a leading name in office copiers, but there are nearly as many copier companies as computer companies these days.

Before you buy, make sure your estimated monthly volume can be handled comfortably by the copier you are considering. In fact, make sure you have a bit of a buffer in that regard. Don't go for fancy electronics or features you probably will not need. Value copy quality and the reputation of the vendor above all else.

A few alternatives you might want to consider are:

**Konica** (Konica Business Machines U.S.A. Inc., 500 Day Hill Rd., Windsor, Conn. 06095; 1-800-648-7130). Offers a range of copier models, including several with special features for small-business applications.

**Kodak ColorEdge Copier** (Eastman Kodak Co., 343 State St., Rochester, N.Y. 14650; 716/724-1000). If your business needs to use color handouts and copies, then the $59,500 ColorEdge, a full-color copier that can operate at 23 pages per minute, is worth examining.

**Minolta 490Z** (Minolta Corp., 101 Williams Drive, Ramsey, N.J. 07446; 1/800/USA-DIAL). If two-color copying will satisfy your needs, this feature-packed, 30-page-per-minute model may be for you. The $6,995 machine was highly recommended recently by a leading independent testing laboratory.

**Canon PC-7** (Canon U.S.A. Inc., 1 Canon Plaza, Lake Success, N.Y. 11042; 516/488-6700). The $2,095 desktop copier has a stationary copyboard, making it a better fit in tight corners and easier to copy bulky documents. You can copy in five different colors by snapping in different cartridges.

**Ricoh 4430** (Ricoh Corp., 5 Dedrick Place, West Caldwell, N.J. 07066; 201/882-2000). A model that turns out 22 pages per minute and has an optional editor board that lets you delete, save, and magnify areas of an original onto the copy. It can erase shadows on copies made from books and other bound materials. The $4,095 machine has a 500-sheet capacity in two input cassettes, and it can copy in black, red, green, or blue.

## Voice Mail: A Smart Message System

The attraction of voice mail is clear: It provides an answering machine with a brain.

Voice mail is a computer-linked system for sending, receiving, storing, and retrieving phone messages. While it is most commonly used by large companies, voice mail should also have appeal to small companies, which can ill afford telephone disorders and message foul-ups.

"I used to call in at least two to three times a day when I was on the road to make sure everything was all right," says Tom Lewis, co-owner of Advanced Financial Group, a Hartford, Conn., financial-services firm.

"Now," he says, "I can call in to the voice-mail system, and if there is no message in my mailbox, I know everything is all right; it really takes the pressure off the receptionist."

Lewis' system, like most others, permits users to maintain private electronic mailboxes, handle call forwarding, and leave private messages for important clients who may call in.

Though there are large—and expensive—customized systems available, one of the best for small organizations is **The Complete Answering Machine** at $349. (The Complete PC, 521 Cottonwood Drive, Milpitas, Calif. 95035; 408/434-0145). This sophisticated system is a board that plugs into a personal computer. It runs in the background, which means it won't tie up a PC, and it has most of the features of expensive systems, but it doesn't require a service technician or a system administrator.

*High technology in your office can improve productivity at an affordable price. From typewriters to lap-top computers to fax machines—here is a display case of the newest electronic marvels.*

## The Latest Word On Typewriters

Not too long ago, no self-respecting office would be without a typewriter. Today, computers with word-processing software have almost, though not entirely, made typewriters archaic.

Some employees are more comfortable with typewriters than with computers, and almost all typewriters are less expensive than word-processing setups. So electronic typewriters still are worth considering for simple office tasks.

For years the IBM Selectric was the industry standard. While it's still highly popular among typewriter buyers, for the past three years the federal government has chosen **Swintec's 8014S** ($549) as its workhorse machine.

Most models offer excellent print quality, and some can be attached to a personal computer with an interface card. Many new models, such as the **Swintec 9500,** the **Xerox System 60,** the **Sharp ZY-1000S,** the **Panasonic KX-E7500,** and the **Brother WP-650** or **WP-510** are limited-function word processors with display screens and document-storage capability. Full-function models cost up to $3,000 or more.

Your best bet? Go for a lower-priced model. When you get into the $2,000 price range, you may be better off investing in a personal computer, which is a more versatile tool. A good, versatile choice at an affordable price is the **Swintec 7040** ($899), with a 40-character display, optional 48 kilobytes of memory, 80,000-word dictionary, and a host of text-editing functions.

## The Facts On Facsimile Machines

Facsimile machines are among the hottest of this year's high-technology products. What can they do for your business? Ask David Galbo, director of management information systems for Chicago Stock Tab, a Wheeling, Ill., manufacturer of computer forms.

His company has five plants and eight public warehouses. Until recently, all the plants and warehouses sent inventory and billing documents to the main plant every day by an overnight air-courier company. Under that arrangement, the company's shipping bills totaled approximately $180,000 a year.

To reduce this cost, Galbo bought seven Ricoh R2100 fax machines. "Each one cost us about $5,000. We were paying for dedicated phone lines anyway, so the machines were really our only cost," says Galbo. Now, each plant and warehouse sends its orders by fax daily, and Chicago Stock Tab saves about $100,000 a year.

Fax machines work by scanning documents and converting them into an electronic format that can be sent over ordinary phone lines. The fax machine that receives the message converts the electronic information back into a document. Virtually every electronics company offers a model. Some good choices are:

**Brother Fax-195** (Brother International Corp., 8 Corporate Place, Piscataway, N.J. 08855; 201/981-0300). This $1,595 model combines facsimile, telephone-answering, and copying functions in one unit. The FAX-195R, a two-color version that transmits and receives documents in black and red, also is available.

**Canon Faxphone 20** (Canon U.S.A. Inc., 1 Canon Plaza, Lake Success, N.Y. 11042; 516/488-6700). For $1,995 you can get Canon's most popular model, housed in a sleek black case. Features include speed dialing, a five-page automatic document feeder, and a window display showing users how to program the machine's functions.

**NEC America Nefax-20** (NEC America Inc., Facsimile Division, 8 Old Sod Farm Rd., Melville, N.Y. 11747; 1-800-STARFAX). This advanced-function model, priced at $3,395, can transmit documents up to 33 feet in length, considerably longer than the usual letter or legal-size sheets. It also has copier capabilities and loads of automatic features.

**Panasonic KX-F120** (Panasonic Co., 1 Panasonic Way, Secaucus, N.J. 07094; 201/348-7000). For $1,695 the KX-F120 combines just about everything you could want in a single-phone unit. It is a full-featured telephone, an answering machine, and a facsimile. Features include a 100-station speed dialer, automatic switching between telephone and fax modes, and a five-page document feeder.

**Ricoh FAX07** (Ricoh Corp., 5 Dedrick Place, West Caldwell, N.J. 07006; 201/882-2000). An extremely compact personal-phone/fax combination with a modest price tag of $1,750. Taking up only a little more space than a typical telephone, the FAX07 still provides a number of automatic features, though it lacks an automatic paper cutter, typically found on fax machines. Still, a good buy.

SPECIAL REPORT

# Personal Computers: Increasingly Versatile

The personal computer is now as much a fixture of the modern office as the coffee break. With appropriate software, the PC can be turned into a word processor, a desktop publishing system, a presentation-graphics device, a tool for communications and research, an electronic spreadsheet, and much more.

Though IBM no longer dominates the marketplace, the company's Personal System/2 family (PS/2) is doing well, as are the many machines

compatible with IBM's first offering, the IBM PC. No matter what company you look to for a computer, above all look for the vastly increased processing power that is available today for a relatively modest price.

Most office computers now use either an 80286 or 80386 microprocessor. The machines, called 286s or 386s, are very powerful, and they can run either the industry-standard operating system (called MS DOS) or the newer system, called OS/2 (for operating system 2). Some offerings to consider are:

**Tandy 1000 TL** (Check your telephone directory for the address and phone number of the Radio Shack store in your area). At $1,488.95 with 640 kilobytes of memory, a single 720 kilobyte floppy-disk drive, and a monochrome monitor, a great choice for computer beginners with modest needs. This is a computer that can grow with your business (a 20-megabyte or 40-megabyte hard disk can be added, for example). Best of all, the machine comes with DeskMate software, a handy package for word-processing, worksheet, filing, spell-checking, and calendar applications. Support is available from the nationwide network of Radio Shack dealers.

**NEC PowerMate 1 Plus** (NEC Information Systems, 1414 Massachusetts Ave., Foxboro, Mass. 01719; 508/264-8000). At $2,595, another good entry-level system, with support from a strong dealer organization. Lots of storage and display options are available.

**IBM PS/2 Model 50Z** (IBM, 900 King St., Rye Brook, N.Y. 10573; 914/934-4000). A 286-based computer from IBM's PS/2 line. If you want the security of buying an IBM, as many do, then, at $3,995, this is a low-cost way to buy into the PS/2 line.

**Dell System 310** (Dell Computer Corp., 9595 Arboretum Blvd., Austin, Texas 78759; 800/426-5150). Dell sells its systems by mail order, and it backs them up with one year of free on-site service. The $4,099 list price is for a complete system, with a 40-megabyte hard disk, and a monitor with graphics capabilities.

**Compaq Deskpro 386/20e Model 110** (Compaq Computer Corp., 20555 FM149, Houston, Texas 77070; 1/800/231-0900). If you need a heavy-duty numbers cruncher, this top-of-the-line machine may be right for you. The Deskpro 386 runs at a lightning-fast 20 megahertz. Standard are a 110-megabyte hard disk, a single 1.2-megabyte floppy-disk drive, 1 megabyte of random-access memory, and a high-performance 16-bit video graphics controller. All this doesn't come cheap. List price of the Model 110 is $7,999, with a companion 14-inch VGA monitor an additional $699.

**Mac IIx** (Apple Computer Inc., 20525 Mariani Ave., Cupertino, Calif. 95014; 408/996-1010). Once looked upon as a weak sister of the computer world, the Apple Macintosh (or Mac) is now viewed as a full-fledged business machine. Especially popular for desktop publishing and graphics applications, the Mac has a wide range of popular software support. Leading the way is the Mac IIx, a fast, expandable product with lots of storage room and impressive color capabilities. It's not cheap (a fully configured system can cost $10,000), but many think it's worth the price.

# On The Road With Lap-Top Computers

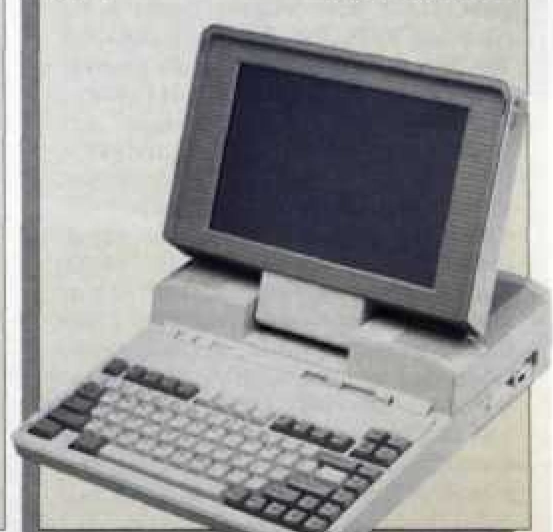
Terry Hoffman is president of Universal Title Agency, an Atlanta-based company that closes real-estate loans for mortgage companies. Hoffman does a lot of his work in the field and often has found that customers want some last-minute changes at closing. To handle those changes, Hoffman takes a Toshiba T3100 portable computer with him. "If the customer doesn't like the terms, I can make a change on the spot and print out a new contract right there," he says.

Back at his office, Hoffman uses a software product called **Brooklyn Bridge** to transfer data from his lap-top computer back to his desktop computer. With more than 100 closings a month, his portable system has proved to be invaluable. For general use, consider the following lap tops:

**NEC ProSpeed 286** (NEC Home Electronics Inc., 1255 Michael Dr., Wood Dale, Ill. 60191; 312/860-9500). A sturdy, battery-operated lap top that, at $4,999, can serve well both in the office and on the road. It has an excellent, legible screen and at least three different data-storage options.

**Toshiba T5100** (Toshiba America Inc., 9740 Irvine Blvd., Irvine, Calif. 92718; 714/583-3000). The $7,499 price may sound high, but the T5100 is the functional equivalent of a desktop 386 system. Powerful, sleek, and only 15 pounds, this lap top can handle almost all business needs very comfortably.

**Zenith SupersPort 286** (Zenith Data Systems, 1000 Milwaukee Ave., Glenview, Ill. 60025; 800/842-9000). Under 11 pounds, very readable screen, and a good keyboard. The $4,999 SupersPort is able to operate for almost four hours on a battery charge, even with its standard 20-megabyte or optional 40-megabyte hard-disk drive.



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SPECIAL REPORT

# The Software That Makes Your Computer Useful

While your office should have the proper hardware—the computer best suited to your office needs—it's really the software that makes your computer useful.

Discount prices are often available for the most popular business software. If you are buying a package that you feel will require a lot of support, such as an accounting or a desktop-publishing package, you might do well to purchase from your local dealer. But if you know what you want, buying from a mail-order vendor can often lead to a best buy.

### Accounting Software

Accounting programs can be inexpensive and easy to use, or they can be complex setups that can handle the needs of all but the largest businesses. If you plan to computerize your business' accounting system, remember two key points:

First, set a target date for converting. While you get ready to switch, spend time learning the package, perhaps by using the sample files that most systems offer, so you become comfortable with it.

Second, when you do switch over, remember to run your manual system concurrently with your computerized system for at least a month. This will protect you in the event of a computer foul-up resulting from your inexperience with the package.

Leading packages are:

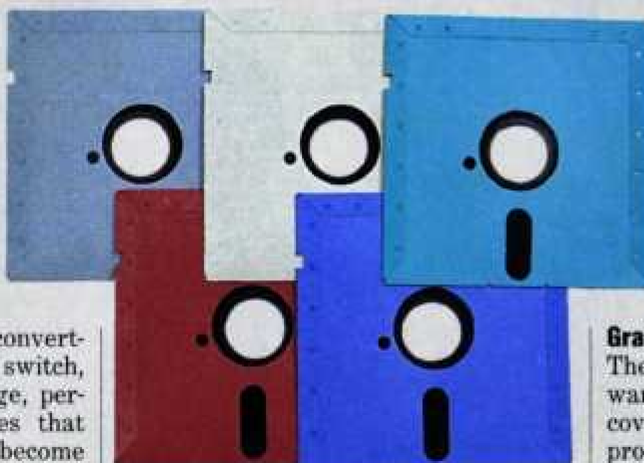
**DacEasy** (Dac Software, 17950 Preston Rd., Suite 800, Dallas, Texas 75252; 800/877-8088). Very inexpensive ($99.95) and easy to use, yet robust enough for a lot of growing businesses. The price includes all seven modules (general ledger, accounts receivable, accounts payable, inventory, billing, purchase order, and forecasting) that you are likely to need.

**Accpac BPI** (Computer Associates International Inc., 1240 McKay Drive, San Jose, Calif. 95131; 800/533-2070). Another comprehensive accounting system, this one specially designed to meet the needs of small businesses. It's relatively inexpensive ($395), and its system of menus and windows, terrific documentation, and friendly telephone support staff make it a joy to use.

**Great Plains Accounting Series** (Great Plains Software, P.O. Box 9739, Fargo, N.D. 58109; 1/800/345-3276). This comprehensive system also was designed with small-business owners' needs in mind. It is sold as 12 modules, so you can buy only those your business needs. Prices range from $495 for the highly rated report maker to $795 for modules such as general ledger and accounts receivable.

### Spreadsheets

Along with accounting and word processing, spreadsheets are important software packages for small businesses. You can do just about any type of financial work on them.



In fact, sometimes you can do more with this and related software than you thought possible. Jay Bergen, U.S. sales manager for a major Korean electronics company, uses a spreadsheet, **Lotus 1-2-3**, and a utility package called **Allways** ($149, from Funk Software, 222 Third St., Cambridge, Mass. 02142; 617/497-6339) to do some amazing things.

Allways works with the 1-2-3 spreadsheet to permit desktop publishing. "We are using Allways with 1-2-3 as an easy-to-use forms generator," says Bergen. "In the past, we would have a graphics house design our forms, which costs a fortune." Though Allways was intended mainly for dressing up output from spreadsheet data, Bergen clearly has found additional benefits as well. "The dollar savings are substantial," he says.

The leading spreadsheet packages are:

**Lotus 1-2-3** (Lotus Development Corp., 55 Cambridge Parkway, Cambridge, Mass. 02142; 617/577-8500). Far and away the market leader, with an installed base of millions. Despite a lag in getting out a new release, its popularity does not seem to be on the wane. A benefit of this package is that because there are so many users, it would be easy to find someone who can help you solve problems. Price: $495.

**Microsoft Excel** (Microsoft Corp., 16011 NE 36th Way, Redmond, Wash. 97017; 206/882-8080). A strong challenger to Lotus, Excel uses the Windows graphic user interface, which graphically displays what choices are available. Compatible with 1-2-3 files, Excel has a WYSIWYG (what you see is what you get) screen interface, which means the computer will print out exactly what is displayed on the screen. One drawback to the $495 package is that you need a fairly hefty computer system to run it.

**Quattro** (Borland International Inc., 1800 Green Hills Rd., Scotts Valley, Calif. 95066; 408/439-1060). Value-priced at $195, but with most of the functions of 1-2-3 and then some. A popular, lower-priced alternative to the market leader.

### Grab Bag

There is much more worthwhile software available than we have room to cover. However, the following are some products you might want to consider. All are fairly inexpensive and can add a lot to productivity.

**askSAM** (askSAM Systems, 119 S. Washington St., Perry, Fla. 32347; 904/584-6590). A $495 personal-information manager that can help you keep tons of things organized, from name and address lists to the clutter on your desk.

**Harvard Graphics** (Software Publishing. Corp., 1901 Landings Dr., Mountain View, Calif. 94039; 415/962-1000). An easy-to-use graphics package that can spruce up your important presentations. At $395, a top-rated package.

**Info-XL** (Valor Software, 2005 Hamilton Ave., Suite 255, San Jose, Calif. 95125; 408/559-1100). A $195 personal-information manager that can be learned quickly. No complicated programming is required; it's ready to go right out of the box.

**Word Perfect 5.0** (Word Perfect Corp., 288 West Center St., Orem, Utah 84057; 801/225-5000). The leading word processor in the market, it has more features than you are ever likely to use, and it is capable of doing some limited desktop publishing. Notable features include an on-line thesaurus, spelling checker, and mail-merge system, and it can merge graphic elements into your documents. Cost: $495.

# Don't Gamble With Addiction

*A worker's compulsive gambling can be spotted quickly and treated effectively before it becomes a company problem.*

*By Gerry T. Fulcher*

Margaret had been the bursar at an exclusive East Coast college for more than 20 years. She was a friend to faculty and students alike. Then one morning her secret was discovered. While Margaret was out sick, a routine audit turned up a $282,000 shortage in the school's accounts. Further investigation revealed that Margaret had diverted tuition checks to her personal bank account.

Ralph had been a jewelry company's top salesman. But one year, when it was time for him to turn in the contents of his sample case and fill it with the new line, his secret came out. His case was empty. He confessed he had sold the $150,000 worth of sample jewelry for less than one-tenth of its value.

Margaret and Ralph lived in different states and led different lives, but they shared one trait that almost went unnoticed: They liked to gamble. For each of them, what began as presumably harmless recreation gradually grew into a compulsion. And the compulsion led to "borrowing" money from employers, who can be easy marks for trusted employees who have access to cash or valuables.

Unfortunately, Margaret and Ralph are not isolated examples. The American Insurance Institute lists compulsive gambling as the primary source of in-house embezzlement and fraud for American business. Moreover, compulsive gambling may be the hidden cause of as much as 40 percent of all white-collar crime, according to the institute.

Experts on gambling estimate that there are about 6 million compulsive gamblers in the United States, some of whom drain companies of sizable sums.

The smallest example I have encountered as a counselor in this field was an elderly cleaning woman who stole $12 from her company's petty-cash box. The largest case I have handled was a $32-million embezzlement by an official of a small Midwestern bank.

The cleaning woman and the bank official, like many compulsive gamblers, couldn't say no to the urge to "borrow" money from an employer.

ILLUSTRATION: GREGG FITZHUGH—EUCALYPTUS TREE STUDIO

They were gamblers who stole, *not* thieves who gambled.

The American Psychiatric Association has called compulsive gambling one of the fastest growing addictions and the most neglected mental disorder.

The problem is likely to get worse before it gets better, many experts say. As states increasingly have turned to legalized gambling for new sources of revenue, cases of compulsive gambling have risen dramatically. For example, individual memberships in Gamblers Anonymous groups in New Jersey and surrounding states have quadrupled since 1978—the year the first casino opened in Atlantic City.

An estimated 10 percent of those who gamble will become compulsive, according to Dr. Robert L. Custer, a psychiatrist who has pioneered treatment techniques for compulsive gamblers. Gambling is termed compulsive when it is a progressive, impulse-controlled behavioral disorder—that is, when the person has a psychologically uncontrollable urge to gamble.

The compulsive gambler is the most treatable of the addicted personalities, including alcoholics. Unlike those addicted to substances such as alcohol, compulsive gamblers do not have to be withdrawn from a physical dependency before they can work on the psychological causes of their addiction. And once recovered, experience has shown, the compulsive gambler often becomes a model employee.

Fortunately for employers, most compulsive gamblers can be spotted long before they commit a major theft. While detection isn't an exact science, look for the following personality traits, which individually may signify nothing but in combination may suggest compulsive gambling:

- Talks about gambling a little too much.
- Brags about being able to devise a winning system.
- Justifies gambling as a "regular hobby."
- Talks about big wins, but the results are never evident.
- Travels to gambling places even during bad weather.
- Does not appear able to afford the clothes, the vacations, or other purchases that might be indicated by his or her salary level.

When those signs begin to show up, approach the employee and ask if he or she needs help. Sometimes that is enough to get the counseling process started. Frequently, the employee will deny any problem exists and will reject assistance. That's the time to get tough. If there is evidence that compulsive gambling is affecting an employee's job performance or is likely to do so, tell the person to get help and stop gambling or risk being fired.

If the employee is ready to deal with the problem, you should make contact with a counseling agency for evaluation and treatment. Start by calling a local chapter of Gamblers Anonymous or your mental-health department for advice. Don't let the compulsive gambler dodge professional counseling.

Compulsive gamblers are addicts. The substance they abuse is money. The longer an employer waits to understand and deal with a problem, the greater the chance that the employee's problem will become the company's problem, too. NB

*Gerry T. Fulcher is director of the compulsive-gambling education and treatment program at Gerard Associates, in Uwchland, Pa.*

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When a crisis occurs in any business, it takes dependable equipment to get the job done. It takes equipment like Chevrolet medium-duty trucks.

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MEDIUM TRUCK



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# U.S. Shoe Firms Thrive In High-Quality Market

*By Jane Easter Bahls*

The gray-haired shoemaker stretches a piece of leather over a smooth wooden last and nails it carefully to the form. He wears a cobbler's apron, and he takes pride in the painstaking handiwork required to produce a fine pair of shoes.

A scene from a back-street London cobbler's shop a century ago? No, it's a shoe factory in Wisconsin today. In fact, it is the world's most modern factory for the manufacture of welt shoes, which are high-quality leather shoes whose principal parts are meticulously sewn to a leather "welt" for strength and flexibility.

At the Allen-Edmonds plant in Port Washington, computer-aided design means that producing patterns for a full range of sizes in a new style now can be done in hours instead of months. A $125,000 conveyor system moves shoes from each workstation to the next. Machines assist with the cutting, the stamping, and the drying. And yet, completing every pair of Allen-Edmonds shoes requires 212 separate steps. Many involve shaping, stitching, and polishing by hand.

Allen-Edmonds is one of many companies that can derive only limited benefit from high technology as they struggle to remain globally competitive. While the growth of U.S. high-tech industries is widely known, the survival strategies of certain "low-tech" industries such as the manufacturing of high-quality footwear have received far less attention.

The domestic footwear industry has been devastated by a flood of imported shoes priced below domestic products. The imported shoes are cheaper because of low-cost overseas labor and the subsidies for shoe manufacturing in many countries. Moreover, high tariffs in most countries have made U.S. shoes costly in those markets, while imports in the U.S. are not subject to the same tariffs.

Over 80 percent of the shoes now sold in the U.S. are produced in other countries. Hundreds of American companies, including the biggest names in athletic shoes, have most of their manufacturing done in Korea and Taiwan, where production costs are lower.

*Jane Easter Bahls, of Missoula, Mont., writes about business topics for national publications.*

PHOTO: TONY LAMA INC.

*Pulling wet leather around a plastic foot mold is one of many steps that enhance the quality of the custom-made Western boots from the Tony Lama Company of El Paso, Texas.*

Lee McKinley, vice president of Footwear Industries of America, a trade association for shoe manufacturers, notes that although the average wage of an American footwear worker is $7.37 per hour with benefits, far below the U.S. average of $13.21 per hour, factories in Korea pay only $1.01 per hour, and those in Brazil pay 72 cents an hour.

"We've made some advances in technology, but it's hard to close that gap," he says. And while most countries exporting shoes to America impose tariffs of 25 percent or more on American imports, their companies have to pay only nominal duties on what they send here.

Nonetheless, certain American footwear companies steadfastly refuse to send their production overseas. Despite the obstacles, they've managed to carve niches for themselves in the world market. Three companies whose shoes are regarded as among the best of their type are the Allen-Edmonds Shoe Corp. of Port Washington; Musebeck Shoe Co. of Oconomowoc, Wis.; and Tony

*Manufacturers of high-quality footwear, able to derive only limited benefit from high technology, have managed to carve niches for themselves in their struggle to remain competitive in world markets.*

Lama Inc. of El Paso, Texas. Their experiences may prove instructive for other low-tech companies.

When John Stollenwerk and two partners purchased the Allen-Edmonds company from its founders in 1980, its dress shoes for men were said by many in the industry to be the finest to be found. But in an industry in which name recognition helps to sell the product, most consumers did not know the name, and Allen-Edmonds was losing $400,000 a year.

"We decided to go for a market niche, making the highest-quality leather shoes in the world," says Stollenwerk, an outspoken champion of the cause of the American shoe industry.

Stollenwerk updated the factories, increased wages, and gave workers more diversified tasks in order to reduce boredom. He cut costs by eliminating middlemen in his dealings with suppliers. To boost sales, he started running ads in upscale publications such as *Gentlemen's Quarterly*, *Fortune*, and *The Wall Street Journal*. Sales have increased from $9.5 million in 1980 to a projected $30 million in 1988.

The increase is remarkable in light of the fact that the company had to start over in 1984, after fire destroyed its main plant, in Belgium, Wis. More than 50,000 pairs of shoes, most of the company's inventory, went up in smoke.

Refusing to close down, Stollenwerk informed his dealers that Allen-Edmonds was still in business. The company borrowed equipment, negotiated with another local shoe company to use its plant on weekends, and 14 days later was turning out 1,000 pairs of shoes per week—below the company's typical production level, but far above expectations for a company whose plant had recently burned to the ground.

Aiming for a younger market has helped Allen-Edmonds build a wider base of loyal customers. By upgrading styling and offering new colors and types of leather, the company has reduced the average age of its customers from nearly 60 to under 40.

Stollenwerk attributes the company's current success in part to meeting a growing interest in conservative, handcrafted welt shoes, even though they sell at an average of $190 per pair. "I think the entire world has gotten more conservative," says Stollenwerk, noting what he calls a recent worldwide surge of capitalism. "There's no stigma any more to looking like a banker."

PHOTO: © RICHARD DERK

*Employee Ken Bennett inspects a mold for making orthopedic shoes, one of the new product lines developed by the Musebeck Shoe Co., in Oconomowoc, Wis.*

Musebeck Shoe Co., in Oconomowoc, also has updated its styling, in order to capture a share of the $100-million comfort market, which highlights fit, durability, and comfort.

Marketing its shoes under the names Foot-so-Port, Hawthorne Classics, "All-Seasons" Casuals, Stepettes, and Seaport, the Musebeck company is trying to keep up with the demand for its new line of Suburban walking shoes. "A shoe doesn't have to be ugly to be comfortable," says President Thomas V. Stoll. When he bought the company in 1979, it had a reputation in the industry for comfort but not for style. Building on naturally contoured insoles, the company has emphasized comfort and fit since its founding in 1927.

Founder George Musebeck gradually built a network of 114 company-owned downtown stores, which later were sold to their managers. "Musebeck's name was not well-known because it didn't advertise nationally and didn't sell in department stores," says Stoll.

By the time George Musebeck died in 1960, the stores were aging. The shoes, with names like "The Merv" and "The Betty," retained their comfort but failed to keep up with fashion. To update styling, Stoll hired a designer. He also brought in newer equipment, took steps to improve product quality, and raised wages.

"At one time, people thought our shoes were heavy and too firm," he says. "Now they're surprised to find we have deerskin, men's dress shoes with cushioned insoles, and fashionable women's shoes."

The Suburban line of walking shoes launched last year was well rated by *Walking Magazine*, and the company now is scrambling to keep up with the orders. Musebeck has expanded into women's orthopedic shoes, designed for diabetics and those with arthritis. The company also makes men's casuals and quality work shoes, and custom shoes for people whose feet are extra large, uneven in size, or deformed.

Filling a market niche doesn't always mean making footwear for the most obvious customers, however. When Pope John Paul II visited San Antonio, Texas, in 1987, he received an unlikely gift: a pair of custom-made Tony Lama cow-

**MANAGING YOUR BUSINESS**

**U.S. Shoe Firms Thrive In High-Quality Market**

boy boots, with the papal seal inlaid in multicolored leather.

Whether worn by a pope or a cowpuncher, Tony Lama boots are designed to impress. "Our styling has always been very different," says Tony Lama Jr., chairman and chief executive of the multimillion-dollar Tony Lama company, in El Paso. Known as the best in the Western-boot industry, Tony Lama boots often feature dramatic decorative stitching, contrasting colors, and exotic leathers—from rattlesnake to ostrich.

The company was founded by Lama's father, Tony Lama Sr., a cobbler who came to appreciate comfortable, stylish boots while serving in the U.S. Cavalry. With a reputation for well-fitting, custom-made boots, the shoe-repair shop he opened in El Paso in 1911 grew steadily.

The Tony Lama firm now employs 1,300 people and turns out 3,000 pairs of boots per day. They're worn by bankers, business people, policemen, ranchers—people in almost all walks of life. "Once they get used to our product, we have them forever," says Lama, noting the high instep that supports the foot.

Tony Lama ads generally focus on the distinctive styling and quality of the boots, which range in price from $79 to $450—except for alligator boots, which run to $850. The company makes custom boots with a rancher's brand or an executive's corporate crest.

Lama admits that he has been tempted to have some of the work done in Mexico to save on labor costs, but he has rejected the idea.

"We can control what we're doing here," he says. "It would be harder to control in another country." He adds that U.S. standards for wages and benefits make labor one of the company's biggest costs.

The cost of U.S. labor is daunting for the other companies as well. "How can you compete with 60- and 70-cent-an-hour labor?" asks Stoll, whose Musebeck shoes require 230 separate steps.

Another obstacle is the worldwide shortage of leather, attributable in part to consumers' reduced demand for beef and veal for dietary reasons. At the same time, competition for the leather supply has increased with the rising demand among the more affluent for leather furniture and auto interiors.

One of the biggest problems for American footwear companies is the imbalance of trade in the world market. The U.S. is one of the few footwear-producing countries that does not protect its industry with significant import tariffs. Accordingly, U.S. companies have to face a flood of inexpensive imports, but they cannot sell their shoes overseas without paying tariffs of 25 percent or more.

John Stollenwerk of Allen-Edmonds addresses the world market with missionary zeal. He and his sales representatives attend 20 trade shows per year all over the world. In January 1987, officials at the Tokyo Shoe Fair denied his application for a booth, telling him the fair was only for domestic companies. When Stollenwerk learned that 30 European companies had been invited, he packed up 50 sample shoes and flew to Japan to crash the show.

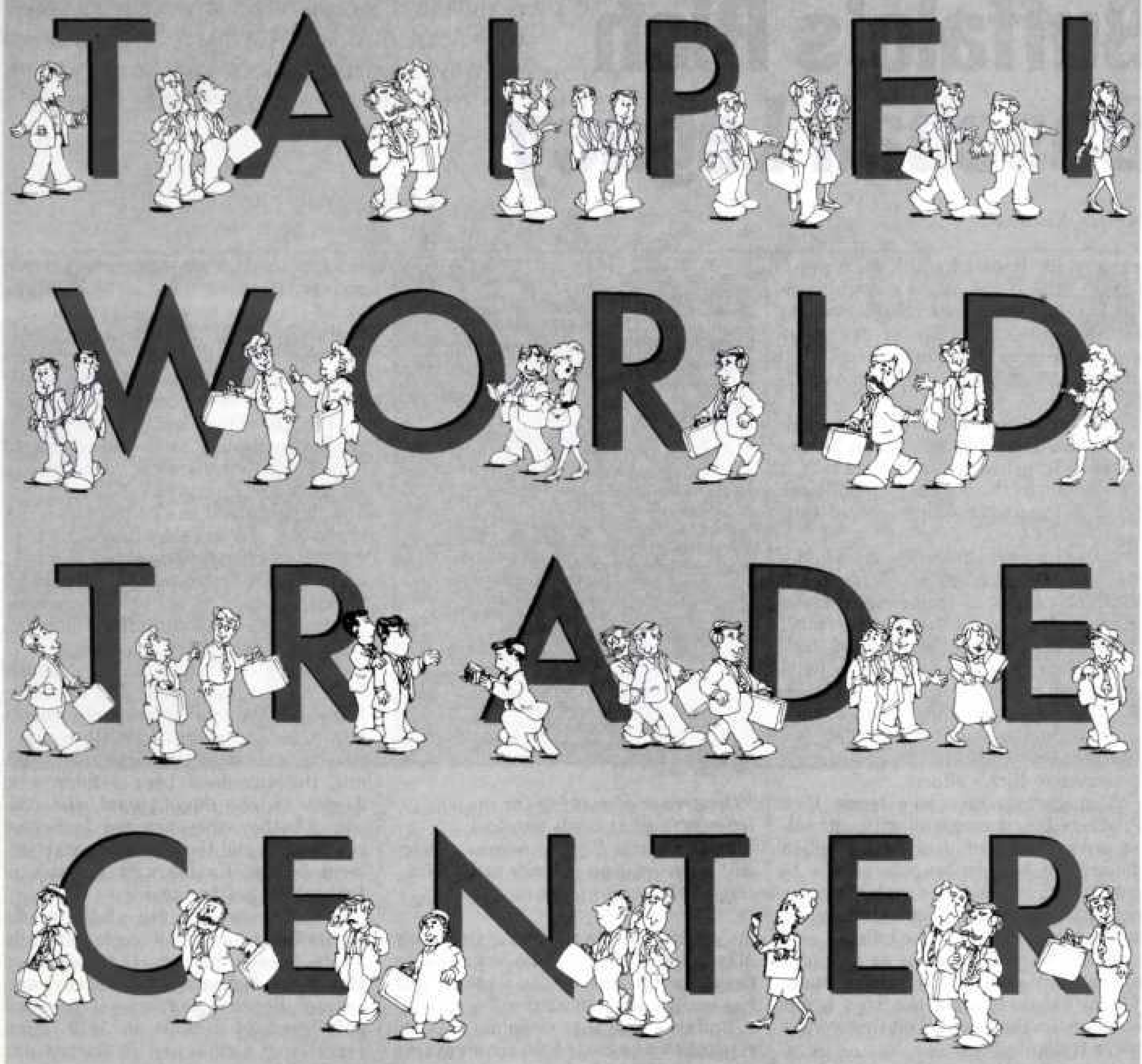
"I was really angry," Stollenwerk says. "We're Japan's best customers in the world, and they're treating us so poorly." Sheepish trade-show officials gave him one of the best locations in the exhibition hall.

For the Tony Lama firm, one protection from import competition is the uniqueness of the product. "They don't make original cowboy boots everywhere in the world," says Lama, who distributes his boots in Italy, France, Germany, Saudi Arabia, and Japan. He notes that the American West is exotic in Oriental countries. "They don't mind spending money on a fine pair of cowboy boots, but it's important that they be made in America."

Likewise, Musebeck and Allen-Edmonds pride themselves on offering something the imports cannot: a full selection of sizes and widths. Because the import strategy depends on mass marketing, most imports come only in a B width for women and D for men, or at most three options. "People aren't getting the fit," says Stoll. Musebeck offers 10 widths in each size, and he maintains a backup inventory for dealers.

Almost all of Musebeck's dealers are still independent retailers. "We try to sell to retailers who are qualified to fit footwear," says Stoll. Though many independent retailers are being forced out of business by discounters, Stoll maintains that there is still a market for skilled footwear service.

Despite the trauma of the American shoe industry, these companies have managed to thrive in the world market. Their secret is clear: finding a distinctive niche in the market, and maintaining consistently high quality and service. In any industry, that's advice well taken. NB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MANAGING YOUR BUSINESS

# Buffalo's Rich Baseball Legacy

*By Glen Macnow*

At 48, Robert E. Rich Jr. is president of the nation's largest privately held frozen-food-products company, owner of the most successful minor-league baseball club in history, and a leading citizen of Buffalo, N.Y.

But he still harbors one big, unrealized dream—to bring a major-league baseball franchise to his city. He calls it "the dream of the big time. And it's not just my dream. It belongs to all of Buffalo."

Major-league baseball's leadership has indicated it intends to expand beyond the current 26 major-league clubs in the 1990s, and Rich is trying to push Buffalo to the top of the list of aspirants. Other cities have larger populations and better year-round climates. But Buffalo, once considered a dark horse without a stall, has emerged as a prospect that cannot be ignored—largely thanks to Rich's efforts.

A gregarious man who heads Rich Products Inc., a company with estimated annual sales of over half a billion dollars, Rich describes his efforts to put Buffalo in baseball's major leagues not just as an entrepreneurial challenge but also as a chance in the infield.

"Our dream is the same as that of a minor-league shortstop," says Rich. "All he can do to make the 'bigs' is put numbers on the board. And that's what we're trying to do."

So far, Buffalo's numbers have been phenomenal. Rich's Buffalo Bisons, of the Triple-A American Association, drew 1,186,651 fans last season, the highest attendance of any club in minor-league history. The Bisons' average of 16,481 fans per game surpassed that of three major-league franchises: the Atlanta Braves, the Chicago White Sox, and the Seattle Mariners. The contention in Buffalo is that if so many fans come out for each game to see players such as Benny Distefano, Slammin' Sammy Khalifa, and Felix Fermin, imagine what the turnout would be for major-league stars such as Don Mattingly and Roger Clemens.

"The people of this town—and Bob's team—have proved that Buffalo is a major-league town," says Buffalo's Mayor Jimmy Griffin, who has a season ticket for the Bisons. "In a sense, that has really been our mission."

*Glen Macnow writes about the business of sports for the* Philadelphia Inquirer.

PHOTO: © JOE TRAVER

*"The dream of making the major leagues is what holds baseball together," says Buffalo Bisons owner Bob Rich Jr., who intends to see his city in the major leagues.*

Buffalo's goal is to dispel its national reputation as a rusted old snow-covered town abandoned by industry.

Evidence of the city's turnaround can be found everywhere. Buffalo's growing big-league attitude is helped by the successes of several of its sports franchises—most recently the Bills of the National Football League. The city's downtown is becoming more vibrant. Manufacturing companies that pulled out of Buffalo a decade ago are being replaced by restaurants, night clubs, and apartments to serve the young population that is returning.

The key to it all is, of all things, a baseball park. The new Pilot Field, a 19,500-seat park—and make no mistake, this is a park, not just a stadium—has become the symbol for Buffalo, representing the renaissance of a beleaguered city.

Pilot Field, which opened in 1988, drew sell-out crowds for 22 of the Bisons' 72 games. Rich cut off season-ticket sales at 9,000—a figure that surpasses that of nine major-league clubs—because he wanted to make sure there always would be seats available for families and individuals who might decide on game day that they would like to go out to the ballpark.

"It's incredible," said Bisons Manager Rocky Bridges, who has managed teams from Virginia to Vancouver in his 41 years in baseball. "People here scream and shout like no place else I've ever been. It's like they're at a football game. It's great, because they don't yet know they're supposed to boo the manager."

Indeed, even though their club finished in third place last season, 17 games out of first, Buffalo's euphoric fans don't appear ready to boo anything. During a game one perfect night last season, for example, they gave rousing cheers to the hometown players, the tuxedoed beer vendor who dances on the dugout roof, the 350-pound batboy, the animated four-color scoreboard, and the pregame entertainment by the Kazukiewicz Krusaders-Polish Villa softball team.

Griffin deserves much of the credit for Buffalo's baseball success. After 94 years (and a history that included Marse Joe McCarthy, Bill Dickey, and Johnny Bench), professional baseball pulled out of Buffalo in 1970. Nine years later, Griffin and 40 friends put up $1,000 apiece to buy a run-down Double-A franchise. The club played in decrepit War Memorial Stadium. The team drew just 77,000 fans for the entire 1982 season. "We knew nothing about the baseball business," Griffin admits. "We were facing disaster."

Enter Robert E. Rich Jr., who bought the team and saw it upgraded to the Triple-A level. He and the mayor began lobbying for a new stadium. In 1984, New York State agreed to pay half the cost of the $43 million park; city and private funds paid the rest.

Buying and stabilizing businesses are nothing new to Rich, who has an M.B.A. and sits on 18 corporate boards. As president of Rich Products, he has supervised the acquisition of distressed smaller companies that specialize in everything from donut fillings to shrimp processing. In *The Man Who Invented Saturday Morning*—a 1988 book of es-

*Other cities may have better weather and better baseball, but Buffalo has Bob Rich—an entrepreneurial food-products magnate whose dream is to have major-league baseball in his town.*


PHOTO: © JOE TRAVER

*Exuberant Buffalo Bison fans cheer the players, the beer vendors, the batboys—and owner Bob Rich, whose efforts helped the team draw the highest minor-league attendance ever.*

says on American business enterprise—author David Owen writes that Rich's "preference in corporate acquisitions is for father-and-son companies that face extinction because the fathers want to sell out and retire." Owen says that Bob Rich and his father, Robert Sr., typically "move in, inject new capital and leave the sons in charge. The result is an uncommonly contented stable of acquirees and an unusually rosy outlook for the corporation as a whole."

Today, Rich Products has more than 900 employees in Buffalo and produces, among other things, Coffee Rich nondairy creamer, Fresh 'N Frosty dessert drinks, bread dough, pancake batter, pudding, cake icing, and cheesecake. Chances are good that even if you have never heard of Rich's company, you have tried his products. They are sold under dozens of independent labels and are dispensed by many food services.

The company's latest innovation is a patented freezing process called Freeze Flo, which allows frozen food to stay soft or in a liquid state. That allows the fruit in Rich's cherry amaretto or peach schnapps Grand American Premium ice cream to keep its fresh flavor and texture.

Scientists at Rich Products are looking at other potential uses, including frozen juice that can be sipped straight from the container and pastries that can be refrozen. If even a fraction of the ideas come to fruition, the company's annual sales, estimated at $600 million in 1985, could increase markedly.

Of course, things weren't always this good. In 1944, when Robert E. Rich Sr. founded the company, annual sales totaled $30,000. In those days, the firm's only product was nondairy whipped topping made from soybeans. The so-called "Miracle Cream from the Soybean" didn't really catch on until the senior Rich discovered that the product—unlike real cream—could freeze, thaw, and then be whipped up to perfection. That meant the topping could be shipped all over the world, and it meant success for the senior Bob Rich.

Now 75, the elder Rich remains chairman of the board of Rich Products as well as of the baseball Bisons. His net worth is estimated at $300 million.

Bob Rich Jr. joined the family business in 1963, having graduated from Williams College and having finished an unspectacular career as a minor-league hockey goalie. The younger Rich began his career running the company's Canadian plant. He went on to start Rich Products' marketing department before becoming company president in 1978.

"Oh, we've had offers to sell the company, but we've just got too much of a stake in the community to consider it," Rich says as he cracks open a peanut while watching his team play the Denver Zephyrs. When he's up in the Pilot Field owner's box during a game, Rich would rather talk baseball than boardrooms. He bemoans the Bisons' lack of hitting, marvels over a pitching phenomenon named Rick Reed, and discusses details of the game at a level generally reserved for third-base coaches.

He is wearing a tailored suit and cowboy boots, and he and his friends are munching Buffalo chicken wings and little roast beef sandwiches. When he walks the stadium hallways, the recognizable Rich is applauded by calls of "Yo, Bob," and "Way to go, Bob."

"Bob and his baseball team have had a direct impact on the quality of life in this town," says Ed Williams, son of former major-league home-run champ Cy Williams and president of a local computer company. Williams dropped his plans to move his firm, Action Data Systems, from Buffalo's downtown to the suburbs, because the construction

*Among the front-row fans at a Buffalo Bisons game last season were, from left, Mindy and Bob Rich—she oversees Pilot Field's catering and concessions, he owns the team—along with New York Gov. Mario M. Cuomo and Buffalo Mayor James D. Griffin.*

PHOTO: ©JOE TRAVER

of Pilot Field convinced him that the city was on the rebound. Instead, he bought 14 season tickets. "And when Bob gets us major-league ball," says Williams, "I'll buy twice as many seats."

That kind of confidence is widespread these days in Buffalo, where Mayor Griffin says, "The question now is not *if* we'll get a major-league team, but *when* we'll get it."

Such optimism is far from what Rich heard when he began his crusade for major-league ball a few years back. In those days, even the most ardent Buffalo boosters conceded their city was a long shot for expansion, considering the demographics of hopefuls such as Washington, Phoenix, and Miami.

Rich recalls his first visit to a major-league baseball owners' meeting in 1985, when he was among representatives of 14 cities making pitches to baseball's Long Range Planning Committee. "The national press sort of laughed at me," he says. "They didn't figure Buffalo should be considered seriously. But the baseball people gave me a much better reaction."

While others presented slide shows and hosted liquor-laden hospitality suites, Rich gave owners a low-key sermon on Buffalo's merits. He noted that the football Bills and the National Hockey League's Buffalo Sabres traditionally have ranked near the top of their leagues in attendance. And to counter predictable criticism of his city's weather, Rich produced charts showing that while Buffalo's winters are harsh, its summers are among the nicest in the U.S.

Halfway through his talk, Rich says, one major-league official—he forgets which one—interrupted to say: "Wait a minute. We all know about Buffalo. Some of us have played there. We like it. Just tell us what we can do to help."

Beyond that encouragement, Rich has taken seriously the criteria that baseball Commissioner Peter V. Ueberroth laid out in 1986 for cities seeking expansion teams. While Tampa and St. Petersburg, Fla., have tried to lure away existing franchises, Rich followed the directive to build up a strong fan base—indeed, the strongest in minor-league history. Ueberroth said he wanted new teams to come in with existing farm systems, so Rich put a Double-A club in Wichita, Kans., and, most recently, a Single-A club in Olean, N.Y.

Likewise, Rich, pursuant to Ueberroth's directive, has worked with the city government to get a favorable stadium lease at a baseball-only ballpark with real grass. And Rich himself meets the commissioner's standard that the team's owner be based in the community and have a net worth of over $200 million.

Still, nothing is definite, especially with Ueberroth's decision to step down as commissioner in April.

Most experts believe major-league baseball will add four or six teams during the 1990s, with two coming as soon as 1992. But some baseball owners remain reluctant to divide their network TV money any further or dilute player talent any further.

"My instinct tells me the announcement will come in 1990, and we'll be fielding a team by 1992," Rich says. "But, of course, it's not my decision."

Those who will help make the decision are guarded but encouraging. Philadelphia Phillies President William Giles, who heads the National League's expansion committee, says Buffalo "has gone from the back of the pack to a point where it has to be seriously considered."

National League President A. Bartlett Giamatti, who will succeed Ueberroth this coming season, says only that "Buffalo is going down the right path [toward expansion]. The city hasn't gone overboard and spent huge amounts of dollars on its dreams."

But those dreams certainly have taken hold of Buffalo, which, history recalls, fell one vote short of gaining a major-league team in 1969. Even before the 1988 season began, the goal in Buffalo was to make everyone notice the city. And the way to do it was by breaking the 1983 Louisville Redbirds' minor-league attendance record of 1.05 million. If Buffalo wanted to show it was a better expansion site than other current Triple-A towns such as Denver or Indianapolis, Rich figured, Buffalo had to outdraw them.

The challenge, of course, was selling minor-league ball to a town with big-league aspirations. "The Yankees can market Mattingly and [Dave] Winfield," Rich says. "We don't have that kind of talent to showcase. And even if we get a great player, he soon moves up to Pittsburgh. [As the Bisons' parent club in baseball's farm-club system, the National League Pittsburgh Pirates own the contracts of almost all Bisons players.] So we can't market the players; we have to market the experience."

To start, Rich put together a 40-member marketing and public-relations staff. And he made sure that a trip to the ballpark was something more than just a chance to watch a ball game.

The prime attraction is Pilot Field. If most new stadiums boost civic pride, this one inspires devotion. Designed by the same architectural firm that built Royals Stadium in Kansas City, Pilot Field is modeled after classic parks such as Ebbets Field in Brooklyn and Connie Mack Stadium in Philadelphia. There are archways and wall sconces and marble tiles and a green metal roof mounted on steel trusses. "The idea," said the Bisons' general manager, Mike Billoni, "is that baseball is a traditional

family outing, that the sport has a history."

Pilot Field's interior is anything but traditional. Rich had little input on the stadium's design, but he was given almost carte blanche over the interior touches.

So the training room is computerized, and the locker rooms are spacious and carpeted. There is a "spouse's room" with a changing table for diapered children, plus a refrigerator stocked with snacks and soft drinks.

The stadium was designed so that it could be expanded to major-league size of 42,000 seats in one off-season at a cost of $15 million.

"I've been in ballparks all over the world," says Bisons designated hitter Dave Hostetler, who played for several major-league clubs before spending two seasons in Japan. "This is the nicest place I've ever played."

For fans, it's equally nice. A spacious picnic area is tucked behind the center-field fence. Wheelchair seating is spread throughout the park, not corralled into one remote area. The women's restrooms are spotless and contain full-length mirrors, makeup trays, and changing tables.

And, true to Rich's background in the food business, the park is lined with concession stands that sell everything from barbecued pork sandwiches to manicotti to hot dogs cooked on charcoal broilers. Rich's wife, Mindy, handles stadium catering and concessions. Vendors hawk at least five brands of beer—from New York's Genesee label to Molson Golden Ale, a Canadian import. On the stadium's second level, there is a 250-seat restaurant with windows that enable diners to watch the game.

The restaurant and Pilot Field's food court are open all year, largely in the belief that if downtown workers get in the habit of walking to the park, they'll go to more games.

"We've worked very hard on the touches," Rich says, "because that's what we can control. As a minor-league team, we don't choose our players, they're chosen for us [through the farm-club system]. So we work on making the experience a good one.

"You see, if I go to a Philadelphia Phillies game, and the beer is warm and the hot dog is cold, I'll still go back to see Mike Schmidt play. But here, with players that most people never heard of, we have to create a situation where, even if we lose, the fans have a good time."

Most of the responsibility for that goes to Bisons General Manager Billoni, who walks through the stands during games, making sure the soda still has its fizz and the fans are still being treated politely. Billoni, a former sports writer who grew up watching Buffalo baseball, earned the nickname "P.T. Barnum" for hatching ideas such as pig races, Hollywood look-alike nights, and the world's longest chorus line. Every Friday last season, the Bisons and a local supermarket chain sponsored "Bash Night," in which fans received giveaways such as sunglasses or got to participate in on-field activities.

"The way Bob Rich got this thing going, it made perfect sense for us to get involved," said Charles Barcelona, president and chief executive officer of Peter J. Schmitt Co., which owns the Bells supermarket chain. "I figure we spent $200,000 this year on these promotions, but given what baseball has done to help bring back this city, it was worth every penny."

Barcelona also got involved in Rich's voluntary season-ticket sales force, in which the city's leading business figures were out hawking tickets. "It was a different kind of role for me," Barcelona says, "but I've got faith in what Bob Rich is trying to do here. The challenge now is to sustain the interest."

Ah, yes. Skeptics—and Barcelona is certainly not among them—are already suggesting that Buffalo's minor-league attendance record was a one-year aberration, fed by fascination with the new stadium and the city's hunger for major-league ball. Though nearly 1.2 million were enticed by the novelty, they suggest, how can Rich keep them coming back to watch mediocre baseball?

"I've heard that talk," says Rich, "and I don't buy it. Our goal is to have more fans this year than last year, and we already have ideas about how to do it. I'm a businessman. This is not a hobby. I don't like losing—I can't take satisfaction in that."

And he is a dreamer who, while he may be dressed in a business suit, pictures himself standing in the field, wearing a uniform and glove. "The dream of making the major leagues is what holds baseball together," he says. "From the rookie-league shortstop to the career minor-league pitcher to the owner of the Buffalo Bisons, we've all got the same dream.

"I think mine is going to come true." NB

LESSONS OF LEADERSHIP

# The Last Of The Citrus Barons

*Ben Hill Griffin Jr. has romanced Mother Nature for over 50 years, using the land and the climate of central Florida to become a citrus kingpin.*

*By Tait Trussell*

In central Florida, some say that Ben Hill Griffin Jr. can control the weather.

Beneath that exaggeration is the fact that Griffin has had quite a romance with Mother Nature for over half a century. He has used the land and the climate to become one of the wealthiest men in America, growing citrus, raising cattle, and practicing the American work ethic to the fullest.

Griffin, 78, is chief executive officer of Ben Hill Griffin Inc., a family business with interests in citrus groves and cattle. He is also chairman of the board and majority shareholder of the publicly traded Alico Inc., an agribusiness with divisions in citrus, cattle, timber, mining, and development. His son, Ben Hill Griffin III, 47, is president of the company. Griffin's net worth has been estimated at $250 million, but Griffin sees himself as a member of the small-business community. And he runs his businesses as if they're small.

"In big companies," he says, "everyone's a number. We don't want to have that feeling in our little business."

But Griffin's business hasn't been little for a long time. In 1933, Ben Griffin's father gave him a 10-acre grove as a wedding present. Griffin added to it during the 1930s, when Florida was practically giving land away at $2 to $3 an acre. He bought his first ranch in 1938, the 16,000-acre Peace River Ranch, and later he purchased a 55,000-acre ranch in Highland County.

In his long career, Griffin has been a kingpin in every facet of the Florida citrus industry—growing, processing, and packing. He started Ben Hill Griffin Inc. in 1948, as a fresh-fruit packing business, and he followed with a fruit-canning company. Later he bought a fertilizer factory and opened an automobile dealership. In 1981 he sold his juice-processing plant to Procter & Gamble.

The citrus business has gone through dramatic changes since Griffin acquired his first grove, but Griffin often chose not to go along with the changes. In the 1940s, many growers turned from fresh fruit to frozen concentrate. But Griffin figured the price of fresh fruit was bound to go up, so he bought a packing plant in nearby Avon Park. That winter, California was hit by a serious freeze, and the price of fresh Florida oranges soared. He also saw many small growers sell to major conglomerates, but Griffin held on.

*Tait Trussell is a free-lance writer in Leesburg, Fla.*

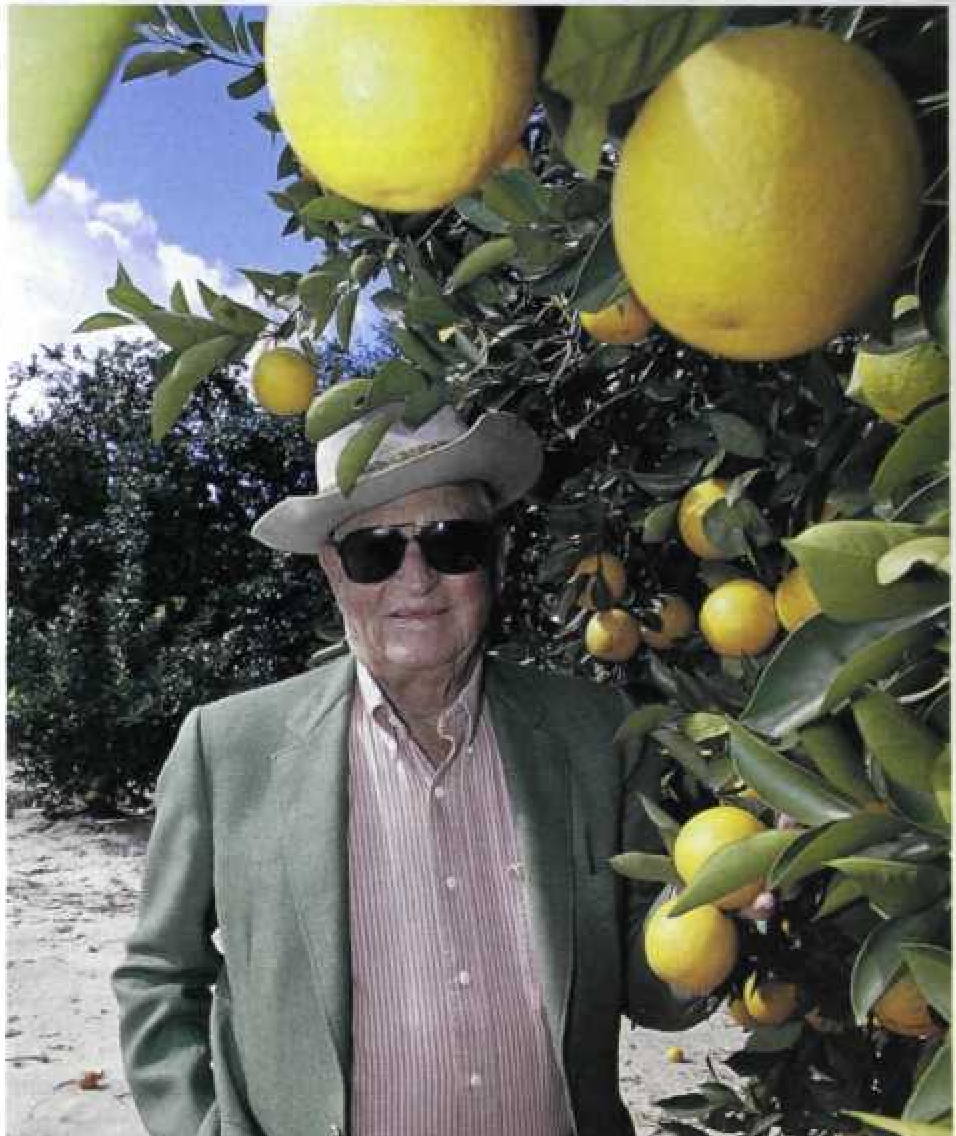

PHOTO: © RIC FERRO—BLACK STAR

*In this Frostproof, Fla., citrus grove—the family-owned acreage where he started working at the age of 5—Ben Hill Griffin Jr. shows the fruit of his lifelong labor.*

He thrived by taking chances and seizing opportunities. His philosophy is that the "small man must not be hampered and controlled by the big."

Despite his vast holdings, Griffin thinks like a small-business owner. "I don't want or need a big staff," he says. "I want to know what's going on." And he doesn't want to have to call another state to find out, "the way those big companies do."

Griffin attributes his achievements to hard work, long hours, and saving. In fact, the importance of saving, which he learned from his father, is one of his favorite subjects. "Work hard and save," he says. "Start little and watch it grow."

Early in life he learned to be thrifty. His father never bought anything until he had saved enough money to pay for

**The Last Of The Citrus Barons**

it, and from him the son learned to save half of his earnings.

His frugality is recalled with a smile by a longtime friend and former college fraternity brother, Byron Herlong, now chairman of the board of A.S. Herlong & Co., a Leesburg, Fla., citrus-growing, packing, and shipping company. Young Ben managed the dining room at the fraternity house. While other dining rooms were losing money, Ben turned the Phi Kappa Phi dining room into a profit center. "If tomatoes were cheap, we'd eat tomatoes, tomatoes, tomatoes," Herlong says. "Or he'd buy cracked eggs—anything that would save money."

And Griffin prides himself on his ability to manage without a lot of frills. Nancy Hardy, publisher of the *Florida Citrus Reporter*, says he often tells his guests: "If you need anything, ask for it. If we don't have it, we'll tell you how we get by without it."

If Griffin is frugal, he's also generous. He has volunteered his time for civic organizations, corporate boards, trade associations, and colleges and has also been involved in politics on a bipartisan basis.

He served in the state legislature as a conservative Democrat but was a strong supporter of George Bush in last year's presidential election.

Charitable work, to Griffin, is not only the right thing to do but also good business, a form of advertising. He recommends that small-business people "give as much as they can spare. I remember when it hurt me more to give $10 than it does now to give $10,000. But it's wonderful."

He is a major contributor to, among others, the University of Florida, where he endowed an eminent-scholar chair, which has been named for him. He also has contributed extensively to the university for its intercollegiate sports programs and for its weight-training center, also named after him.

Griffin's successes don't surprise those who know him. Herlong says: "Ben was always very shrewd. He's also delightful, friendly, folksy, and generous. He has given over $5 million to the University of Florida. He treats everyone alike—bank president or fruit picker. He never steps on anyone. But he is persistent. He'll work toward something until he gets it."

A film honoring Griffin called him the "last of the old-time citrus barons . . . one of the state's most down-to-earth colorful crackers."

PHOTO: ERIC FERRO—BLACK STAR

*To get the most out of an orange, says Griffin, peel it, open a small hole and break the pulp with a knife, savor the juice, eat the pulp, and clean the knife with the rind.*

He is surely down-to-earth. Born during a hurricane on Oct. 20, 1910, Ben Hill Griffin Jr. has made the land his life and his livelihood. By the time he was 5 years old, he was working on his father's farm and in the family grove. He studied economics and agriculture at the University of Florida for three years. When he learned all he'd wanted, he traveled first to New York City, where he looked for work. Not finding any, he went home to Frostproof, the Florida town where his father had settled and where he has hung his hat ever since.

Griffin's father had figured that citrus should be planted on hilly slopes to the south of large, deep lakes where the cold air was least likely to settle and destroy a crop.

The area south of Lake Wales seemed to meet those requirements. So in 1917, he moved to what is now Frostproof, a place so named because the oranges and grapefruit there escaped the great freeze of 1895.

Today, Ben Hill Griffin Jr.'s office is in a handsome brick colonial building with white columns, which seems almost too big for little Frostproof. He spends many hours in his roomy but unpretentious office, which is decorated with memorabilia. But when he arrives at work about 8:30 a.m., he already has talked by phone from his home to a dozen or so people, beginning at about 6 in the morning, and has made a half dozen important decisions. He saves travel time by flying in his own plane—with the pilot he has had for 25 years.

Take a morning drive to Frostproof now, and you will see acres upon acres of citrus trees, their emerald leaves glistening in the sunlight. Go down the main street of the town, and you will pass Griffin Motor Co., a Ford dealership appropriately painted orange and green. You also will pass the processing plant, which Griffin sold to Procter & Gamble. And you will see a small, green, concrete-block building with two gas pumps in front. That's the local office of multimillion-dollar Alico Inc.

Ask Griffin why he has been so successful, and he smiles as he tells the story of the time the big New York banker with whom he was doing business came down to Frostproof. "Now, let's see your long-range plan," Griffin remembers the banker said to him. He replied: "Staying in business this year is my long-range plan."

That has been his credo: Stay in business this year. One step at a time. Hang loose. Keep a nest egg. And let Mother Nature help you turn land into money.

At the moment, for example, the Griffin-Alico interests are mining rock and sand in southern Lee County, Fla., between booming Fort Myers and Naples. Then their 1,100-acre tract will be ripe for housing developments. On other acreage, Griffin is starting to grow sugar cane.

And although he says he has no long-range plan, Ben Hill Griffin Jr. is thinking about the day when his fruit juice will be on the breakfast tables of millions of people in China.

Griffin's beliefs are not lost on his son, who is quoted in the *Fort Myers News-Press* as saying: "He has given me the direction, work ethic, and fairness. Those attributes are far superior to financial gain."

Griffin is a colorful man in a field that has had a long and colorful history. Citrus fruits, historians say, originated on the warm southern slopes of the Himalayas in India. Columbus brought the first orange seeds to the New World. Louis XIV hung tapestries of oranges in the palace at Versailles.

Now Florida's citrus production is larger than that of any foreign country. And much of that crop is grown by Ben Hill Griffin Jr. ■

# Budget Battle Lines Drawn In Red Ink

*By Albert G. Holzinger*

The start of the Bush administration and the 101st Congress is widely viewed in Washington as the beginning of a historic showdown between those politically opposed power centers on how to eliminate the federal budget deficit.

President Bush has ruled out tax increases and wants Congress to accept a plan under which spending limits and growth-generated revenue increases would wipe out the red ink. On the other hand, there is strong sentiment within the leadership of the Democratic-controlled Congress that tax increases are inevitable.

And some economists from the private sector are pointing out that this critical debate will not lead to a quick resolution and may not reach a formal conclusion at all. The president continues to reaffirm his stand against higher taxes, and the Democratic leadership in Congress has indicated it not only will oppose the spending limits that Bush has in mind but also will press for new programs.

Budget gridlock could result. While that might be perceived as the worst that could happen to the U.S. economy, the automatic spending cuts triggered by a stalemate would be far better than a budget accord that includes tax increases, says Lawrence A. Hunter, deputy chief economist of the U.S. Chamber of Commerce.

If the president and Congress can't agree on a deficit-reduction plan, spending will be restrained automatically under the Gramm-Rudman-Hollings law, but the economy would not suffer, says Hunter.

But if tax increases are relied upon to close the deficit, the economy could easily fall into recession, he adds.

Conjecture about an impasse is being fueled by the perception that the players who must accept a deficit-reduction deal are adamant about their conflicting positions.

Bush has been shooting down tax-hike suggestions with the zest he displays in hunting birds.

Moreover, Bush's two appointments to the National Economic Commission, former GOP Sen. Paul Laxalt of Nevada and former Democratic Rep. Thomas L. Ashley of Ohio, strongly signal that the president has not changed his view that the panel must not serve as a political shield for members of Congress who favor raising taxes over their constituents' objections.

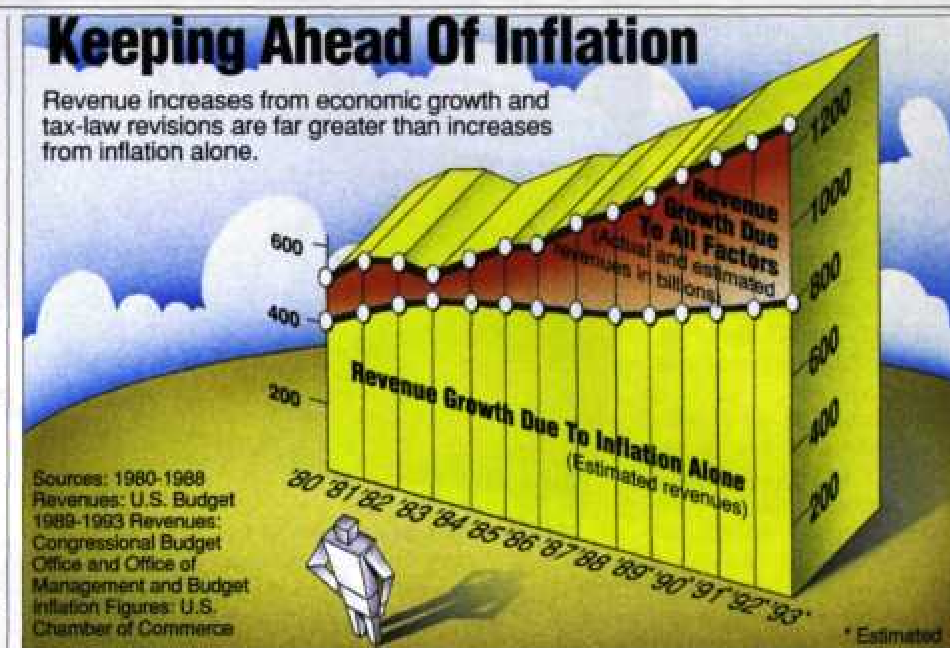

CHART: ROD LITTLE

Laxalt, a conservative Republican, strongly supported Ronald Reagan's budget- and tax-cutting policies. Ashley, a moderate Democrat and one of Bush's college fraternity brothers, is unlikely to oppose the president's fundamental fiscal tenets.

But there is strong support among Democratic congressional leaders for the view that the deficit cannot be reduced significantly on the spending side of the budget ledger alone.

Among the most outspoken of these leaders is Rep. Dan Rostenkowski, D-Ill., chairman of the tax-writing Ways and Means Committee. He advocates an increase of 10 cents a gallon in the federal gasoline tax, which currently is 9 cents.

Rostenkowski argues that an increase of this size would raise about $10 billion annually. In view of the immense fiscal-policy gap between Bush and Congress, it might appear that those predicting deficit-reduction gridlock will prove correct.

If that occurs, as the Chamber's Hunter points out, the Gramm-Rudman-Hollings act will come into play.

That statute sets annual deficit-reduction targets through 1993, when it calls for a balanced budget. Under the law, if a year's target is not met through congressional action by Oct. 1—the first day of the government's fiscal year—spending is reduced across the board.

Richard L. Lesher, president of the U.S. Chamber and a bulwark of the antitax movement, is among those in Washington who believe that some variation of the Bush deficit-reduction plan will gain acceptance on Capitol Hill before automatic cuts are triggered.

"I think the White House will put on the table soon a very plausible scenario for . . . balancing the budget by 1993 without more taxes," Lesher said during a recent luncheon at the Chamber for members of the Washington press corps. "Despite all the people [in Congress] still calling for increased taxes, I think reasonable people soon will be able to see that none are necessary," added Lesher, whose organization is leading an antitax coalition comprising more than 30 trade and professional associations, businesses, and citizens' groups.

The scenario Lesher envisions will undoubtedly reflect Bush's "fair and flexible freeze" plan. Under that proposal, an economy growing at even a modest rate will make a balanced bud-

*As the president reaffirms his stand against higher taxes, congressional leaders indicate they will oppose his spending limits and press for new programs. Budget gridlock could result.*

get possible over the next five years without a tax increase, as long as most spending is allowed to increase only by the rate of inflation. Social Security and interest on the national debt would be excluded.

The Chamber is championing the freeze among members of the business community and the general public. Key to the organization's efforts, says Lesher, is debunking the two myths most frequently advanced by tax-increase advocates.

The first myth is that the root of current deficits is Ronald Reagan's $1.5-trillion tax cut of 1981. The Chamber's Tax Policy Center is distributing data showing that despite this tax cut, revenues have continued increasing sharply, mostly as a result of the unprecedented economic growth of the past six years and other tax-code changes enacted in 1982, 1983, 1984, and 1987. Chamber data show that federal revenues increased at an annual rate of about 9 percent during 1981-87, from $599 billion to $854 billion.

And even under the Congressional Budget Office's pessimistic economic-growth estimate of 2.4 percent, the Chamber points out, revenues for 1989 would increase $71 billion over their estimated 1988 level, which is $33 billion more than required to keep pace with estimated inflation. According to the same CBO assumptions, revenues would increase by 49 percent by 1994, to $1.4 trillion, while inflation would increase by only 30 percent.

The second myth is that federal spending was cut to the bone during the Reagan years and must be allowed to catch up now. The Chamber is combating this contention with data showing that year-to-year spending has never been cut. Spending increased during 1981-87 at an annual rate of about 11 percent, from $678 billion to $1.05 trillion.

It is the gap of 2 percentage points a year between the growth rates of revenue and spending that is the root of the current fiscal problem. "We don't have a deficit because Americans are undertaxed," says Lesher. "We have a deficit because Congress has increased spending far faster than the pace of inflation." NB

## You Too Can Play The Budget Game

*By Albert G. Holzinger*

Phooey to all of you who have told the National Economic Commission that the federal budget can't possibly be balanced anytime soon unless President Bush agrees to increase taxes. It can be balanced. I know. I was able to do it.

Soon after Congress and former President Reagan created the NEC to recommend ways to eliminate the deficit while maintaining economic growth, the commission invented a computer game, which it named Hard Choices. The game is based on a model of the federal budget, and its object is to eliminate the deficit by 1994 solely by restraining spending.

For each of the 18 budget categories, which range from national defense and international affairs to veterans' benefits and agriculture, players are given the Congressional Budget Office's baseline spending estimates for fiscal years 1989 to 1994. These are estimates of the amounts Congress would have to appropriate for those categories in those years to fulfill requirements of current policies and statutes.

Under the rules of the game, players can curtail any estimated spending in any years with two exceptions—payments for Social Security and interest on the national debt. Players also cannot challenge the CBO's assumption of an annual economic growth of only 2.4 percent during 1989-94. The growth-rate assumption is vital because of its impact on revenues and spending.

The commission invited official Washington and the news media to play its game, and then shook its head knowingly when nobody could "win" without making politically unfeasible spending reductions. The game demonstrates why taxes will have to be raised, commission cochairmen Robert Strauss and Drew Lewis said.

Not so, said the National Chamber Foundation, the research and education arm of the U.S. Chamber of Commerce. The foundation, believing the game was rigged, produced a variation of its own, called the Fair Freeze Simulation. The principal difference between the two is that, in the foundation's game, players can see the effects of different economic-growth assumptions and choose the one they believe is most realistic.

PHOTO: T. MICHAEL KEZA

When I played the foundation's game, I chose a growth rate of 2.9 percent. This is about midway between the pessimistic CBO assumption and the average growth rate of the past 40 years, which is 3.3 percent.

I'm not going to tell you precisely how I produced a $21 billion surplus in 1994, just in case you want to play the NCF game yourself. Rest assured, however, that I provided programs such as Medicare and Medicaid with hefty increases, because their costs have been rising much faster in recent years than inflation and because Congress is unlikely to bring them down sharply in the near future.

If you want to try your hand at balancing the budget, the foundation will send you its game for $20. The game is available on 3½-inch or 5¼-inch diskettes. It works with an IBM or IBM-compatible computer with 640 kilobytes or more of memory and a Lotus 1-2-3 spreadsheet program version 2.0 or 2.01. Write to Yvonne Beeler, National Chamber Foundation, 1615 H Street, N.W., Washington, D.C. 20062, or call (202) 463-5552.

PEOPLE

# Making It

*Opportunities where no one else expected them lift a computer start-up and a marketing firm with a twist.*

## Listening To An Inner Voice


PHOTO: © MANUELLO PAGANELLI—WOODFIN CAMP

*Integrated Microcomputer Systems' John Yeh, communicating with interpreter Emilia Patch, proves that a disability such as deafness is no obstacle to success.*

John Yeh has a disability, but he doesn't consider himself disabled. Born deaf in 1947, Yeh has always had to work a little harder. When his hearing disability closed doors to him in the business world, he did not give up. Instead he created his own opportunities.

The result was Integrated Microcomputer Systems, a computer-software engineering and integration company that Yeh founded in 1979. Then, the IMS staff consisted of Yeh, a business manager, and a secretary who knew sign language. Today, the firm, based in Rockville, Md., is a multimillion-dollar enterprise with 450 employees.

For John Yeh the road to achievement was difficult and sometimes frustrating. Yeh, one of six children, was born to Chinese parents. His family fled mainland China for Taiwan in 1949, then moved to Brazil on a cargo ship in 1960. He arrived in the U.S. in 1962.

In his new country, Yeh had to learn not just one language, but two. Although he could lip-read Chinese and knew Chinese sign language, he now had to translate Chinese to English and then English to sign language.

He was 15 at the time, and he was eager to start school and make friends. "But I was put in a class with the 8- and 9-year-olds," he says, speaking through a sign-language interpreter. He was so embarrassed, Yeh continues, that he worked exceptionally hard and set high goals for himself.

He earned a bachelor's degree in mathematics and a master's in computer science from the University of Maryland, and he became a U.S. citizen. But when he decided to make his own place in the business world, new struggles began. With hands moving in fluid motion, he communicates the frustration he experienced when attempting to come up with the funds to start his company. Every bank rejected Yeh's request for money, even though his parents offered their home as collateral.

Yeh looked to those in his family for moral support. Without them, he says, "I probably would have quit."

Finally, in 1979, friends told him of loans available to the handicapped and members of minority groups through the U.S. Small Business Administration. When Yeh was told he needed three bank-loan rejection letters to be eligible, he simply turned over that day's mail. He got a loan for $100,000.

Yeh has gone on to develop the Personal Tele-Communicator, a machine that allows deaf people to communicate through telephones and computer networks, and he is working on other technology that will further merge the hearing and non-hearing worlds.

Yeh emphasizes that these machines are not IMS's primary business, but rather its contribution to the community. Computer science research, telecommunications, and network design are central to the company.

When IMS was 7 months old, it received its first major contract, from the U.S. Army. Even though the company was starting to grow at a healthy rate, Yeh took no salary for two years. His wife, Mary, who also is deaf, supported him with her teaching job. "I was nervous and worried the first year," he recalls. "The money went fast."

The Army contract was renewed and expanded, and now an estimated 85 percent of the company's business comes from the Defense Department. Other IMS customers include the National Aeronautics and Space Administration, Texas Instruments, and the National Institutes of Health. IMS's revenues for 1987 were $21 million, and were expected to reach $27 million last year.

More than 10 percent of Yeh's employees are deaf, and 39 percent are minorities. "We do not look at color of skin," Yeh says. "We do not give special treatment to the deaf. I want the world to understand that capable people should be given an opportunity, whether they are handicapped, black, or whatever.

"We must finally learn to look at people's abilities and not their disabilities."

—*Alison A. Knocke*

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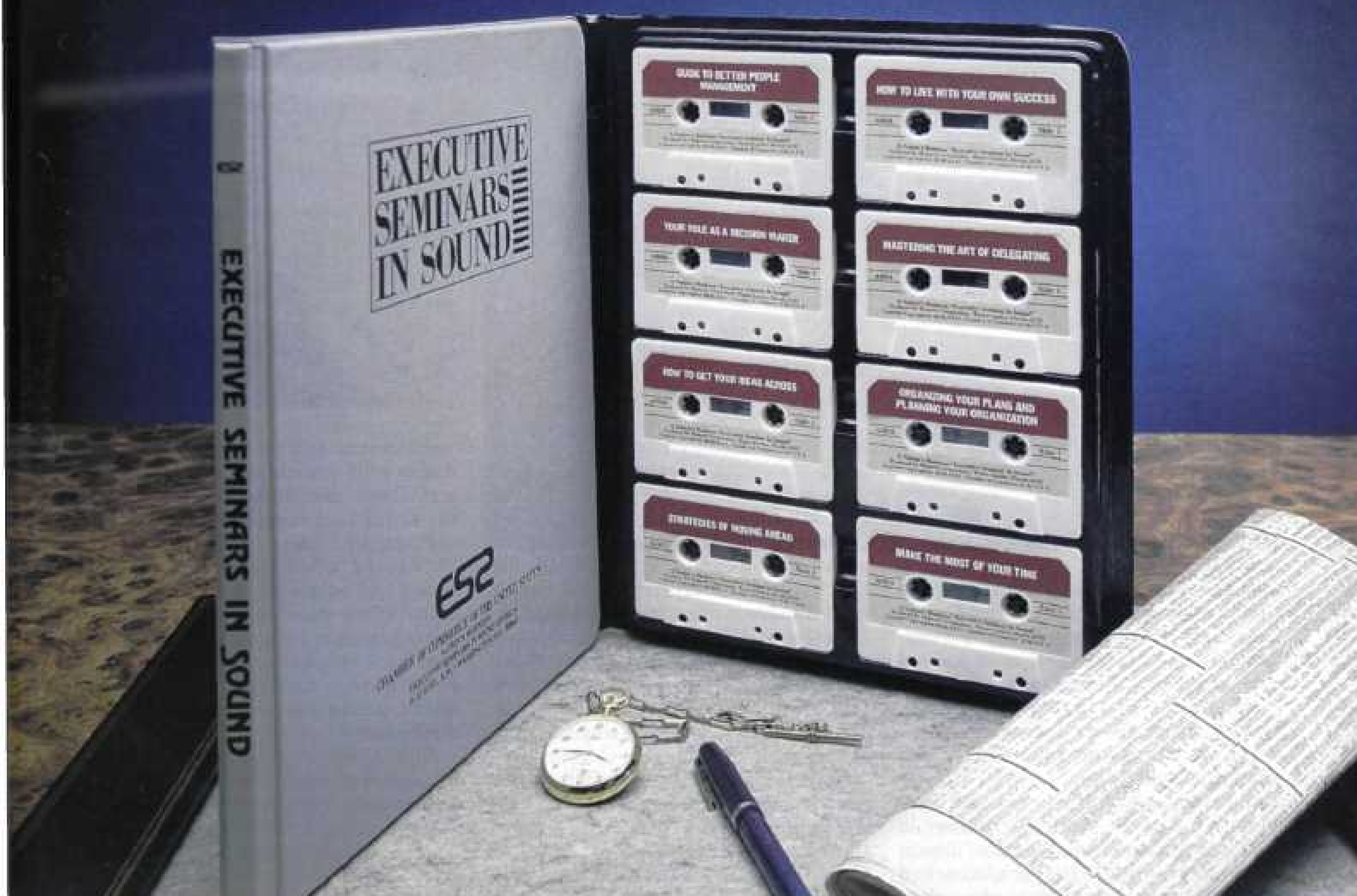


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# In The Blue Chips

*Blue Chip Marketing's Nancy Gallagher and Jim Hoverman, shown here with one of their promotional pieces, say dimensional marketing is the kind of "offshore bombardment" that can pave the way for an in-person sales call, "breaking through the noise level of the In basket and saying, 'Hey, this person wants to talk to you.'"*


PHOTO: ©KEN TOUCHTON

A couple of years ago, several hundred newspaper executives received by mail a quaint little hand-carved wooden locomotive in a cardboard box bearing the message "All Aboard!" Inside was a message from Champion International Corp., a newsprint manufacturer, touting Champion's reliability as a supplier and concluding with the line, "We're in it for the long haul." Over the next six weeks, three more boxes arrived at each executive's office. In them were a hand-carved tender, a log freighter, and a caboose—and a variation on the "long-haul" message.

By the time the fourth package arrived, many of the newspaper executives were looking forward to completing their sets—and they had picked up Champion's message. "You have made your point that Champion stays on the right track by furnishing our plant with ... high-quality paper," one publisher wrote to Champion.

James J. Hoverman smiles when he recalls such letters. He is president of Blue Chip Marketing Group, a Stamford, Conn., company that conceived and assembled Champion's packages. "It's almost like a test," he says. "We're going to send you four messages, and then you synopsize for us what they said."

Blue Chip, which Hoverman and Nancy Lee Gallagher, both 47, started in 1982, specializes in what it calls "dimensional marketing" (its trademarked term). This specialized form of marketing typically involves spending $100,000 to $150,000 to send several mailings to a select audience of perhaps 300 or 400 people. Blue Chip, on behalf of its clients, sends those people what can be described as 3-D advertisements.

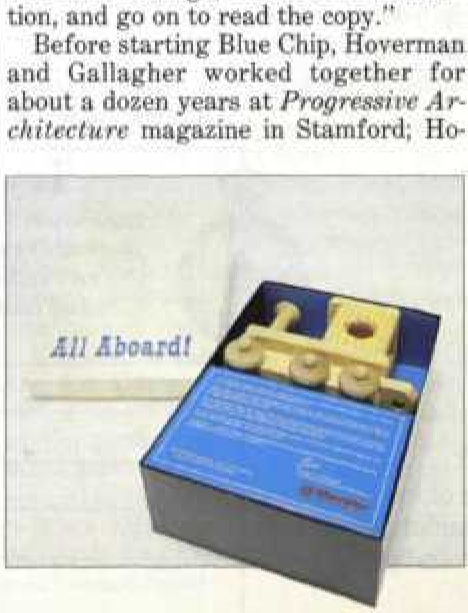
The dimensional pieces have the elements of traditional ads: headline, illustration, copy, and a sign-off with the company's name. But the illustration is, like the train that Champion sent, a solid object. Sometimes it can, like the train, double as a gift, but that is incidental; more often, it is simply an intriguing metaphor—like the fuzzy little football that NBC Television sent to potential advertisers on its broadcasts of New Year's Day bowl games.

That football's fuzzy surface all but asked to be touched—and Blue Chip expects all of its objects to be handled by their recipients. "People tend to remember a little bit of what they hear, a little more of what they see, but a lot of what they touch and feel," Hoverman says.

The few hundred people who receive each object make up a "blue-chip" list; they control the expenditure of tens or even hundreds of millions of dollars by their corporations. So, spending hundreds of dollars to reach each "blue-chip" prospect can make sense—if a precisely tailored message does in fact get through and pave the way for an in-person sales call.

Says Gallagher, who is Blue Chip's executive vice president: "I don't care who you are, you generally will not throw an unopened box away. And once you've opened it, if it's as intriguing as the stuff we develop, you're going to read the message, and see the illustration, and go on to read the copy."

Before starting Blue Chip, Hoverman and Gallagher worked together for about a dozen years at *Progressive Architecture* magazine in Stamford; Hoverman was publisher, Gallagher was director of promotion and marketing, and, Hoverman says, "we were looking for a way to communicate with our advertising audience.




"We did a survey across the East Coast," he continues, "and basically we found there wasn't a company or a medium available for a company like ours that wanted to talk to a relatively small but very important group of people. So we invented the medium of dimensional marketing."

Once *Progressive Architecture* started sending dimensional pieces, Gallagher says, "it wasn't long before we were getting calls from major New York advertising agencies," wanting to know which firm was producing the pieces for the magazine.

Hoverman and Gallagher soon concluded that, as Hoverman says, "we had a real niche." They opened their business in two rooms in a frame building in downtown Stamford. Now Blue Chip occupies two of the building's three floors. Sales last year were about $4.5 million, and Blue Chip's payroll has grown to about two dozen employees.

Twenty or more projects may be under way at any given time, and Hoverman and Gallagher acknowledge that preserving the handmade quality of what Blue Chip produces could become more difficult. "We're not going to have dramatic growth," Hoverman says, "because we simply couldn't have dramatic growth and pay the same kind of attention and give the same kind of blue-chip service that we do."

—*Michael Barrier*

# Personal Management

## To Your Health

*By Norman Brown*

### The Sight Of Your Life

How much is your eyesight worth? Kenneth Boyce, 45, says you cannot put a price on being able to see. He lost some of the vision in his right eye when the retina, the sensitive tissue at the back of the eye that relays messages to the brain, detached—that is, began to tear loose from the eyeball. A blood clot that formed in his eye clouded his vision further. "It was like looking through a smoke screen," he says.

Boyce found his way to Columbia-Presbyterian Hospital in New York, where ophthalmologists used a laser to "weld" the retina back into place. He now sees perfectly with that eye.

Each year, retinal breaks and other eye injuries blind some 50,000 people. Millions more lose visual sharpness to treatable conditions such as glaucoma, presbyopia, and astigmatism. Many could have saved their sight had they received medical help early enough to stop or slow the damage.

Dr. Anthony Donn, ophthalmologist at Columbia University's College of Physicians and Surgeons, says: "Retinal detachment often begins with a shower of sparkling spots. These should be checked promptly." But seeing spots or "floaters" is common as you grow older, he adds, and usually trivial—unless they are red or brown.

**Glaucoma and cataracts**. Symptoms of acute glaucoma are pain in the eye and visual blurring. The more common form, chronic glaucoma, is painless and can go undetected. For that reason, you should have a glaucoma test, called tonometry, annually if you are over 40, have diabetes, or are black.

In glaucoma, the pressure of the fluid in the eye builds up, damaging the optic nerve. To prevent this, a laser can be used to make tiny drainage holes in the iris. The drugs timolol and pilocarpine have had good results as well.

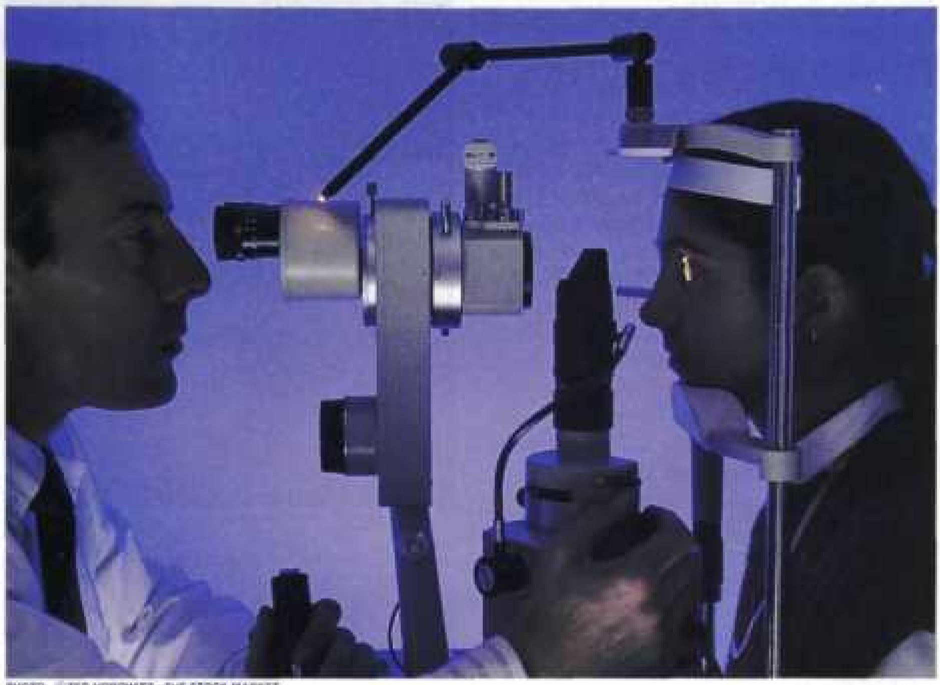


PHOTO: ©TED HOROWITZ—THE STOCK MARKET

*A yearly examination is a simple way to forestall many eye problems. Eyesight often can be saved if care is received early enough to stop or slow the damage.*

Cataracts can appear at any age, and they may be accident-induced. While most remain small, they sometimes become so dense that they impair vision. In such cases, the lens of the eye is removed surgically, letting light pass through to the retina. A substitute lens is then inserted. About 1 million cataract operations are performed yearly.

**Presbyopia and astigmatism.** If you're over 40, you probably have presbyopia, a form of farsightedness that makes it difficult to focus sharply on things up close. The first symptom usually is trouble reading the phone book. That's because the lens of the eye loses some elasticity with age, making it function like a fixed-focus camera. Things up close come out dim and blurred, requiring the use of either different pairs of glasses or bifocals.

Astigmatism is usually present from birth and does not grow worse with age. The distorted vision is caused by an unevenly curved cornea, and it is corrected by glasses or contact lenses.

Treatment for most eye problems usually consists of prescription glasses or contact lenses. One exception is radial keratotomy, a procedure in which incisions are made in the cornea to make the eye less nearsighted. More than 100,000 people have undergone this operation. Critics claim it can further impair vision and is unpredictable. "Just because you wear glasses doesn't mean you should have it done," says Dr. George Waring, ophthalmologist at Emory University in Atlanta.

**Treating infections.** Drugs or other simple measures are used to reduce inflammation and get rid of eye infections such as iritis and optical neuritis, which are most common between the ages of 20 and 40. Symptoms of both are blurring, watering, and pain when you move the eye. Both eyes may be affected, and the causes are not known.

**Eye examinations.** Have your eyes examined at least once a year. Doctors now have sophisticated tools such as the Vision Contrast Test, a chart of striped circles in various shades. It can reveal a poor sense of color contrast—sometimes a sign of glaucoma, cataracts, or diabetes.

You can forestall many eye problems through simple preventive measures. Avoid frequent use of eye drops and waterproof mascara that flakes. Wear good sunglasses outdoors year-round. And seek medical help for eye injuries. With the right care, you can give yourself a lifetime of good vision. NB

*Norman Brown, who lives in Providence, R.I., writes frequently on health topics.*

# It's Your Money

*By Paul N. Strassels*

## Managing Your Cash

Cash management. If the term makes you think of all sorts of technical, detailed requirements that only highly trained accountants and actuaries understand, it shouldn't. Cash management means only that you know what money you have, where it is, how it is being used today, and how it should be used in the future. It also means you have a fairly accurate picture of what's coming in and what's going out.

Unfortunately, most people consider cash management to be a big-business tool. Not so. It can and should be used by individuals and small firms to increase their wealth.

Cash management should be an integral part of your business and personal financial plans.

The basic rule is this: The only cash that is not earning interest is the cash you carry in your wallet and the petty cash you keep in your office. The only two exceptions are a coin collection (although that may be considered an investment that grows in value) and an office postage meter. The rest of your cash should be held in interest-bearing accounts, certificates of deposit, money-market mutual funds, and other investments that either earn daily interest or offer opportunities for growth.

Too many otherwise sophisticated business people think that the amount of interest they forgo by not having cash invested in an interest-bearing account is inconsequential. Although the few dollars in interest you would have earned on a couple of hundred dollars for a few weeks won't make you a fortune, over the years that forgone interest can mount up. Get in the habit of investing even small amounts, even if only for a few days at a time.

There are three mistakes made by many individuals and small businesses. First, they keep substantial amounts in checking accounts that don't pay interest. Second, they keep additional amounts in accounts that pay less than the optimal rate of interest. Third, they pay their bills much too early, forgoing interest income. Overcoming these mistakes takes only a little precision and discipline.

Never violate the first rule of cash management, that all of your funds

PHOTO: © MARTIN ROGERS—UNIPHOTO

*There's nothing magical about masterfully managing your money. It's in your best interest to keep every dollar working for you all the time.*

that are not immediately needed should be invested in interest-bearing accounts. If your present financial institution does not offer these accounts, then switch to one that does. Or run your money through a savings account that automatically transfers funds to your checking account as needed, so that, in effect, your checking account always has a zero balance. Another option is to use a money-market mutual fund checking account, provided you can maintain the required minimum balance. With this type of account, your cash is earning market interest rates.

Next, anticipate your future need for cash. No one likes to be strapped, but that doesn't mean you have to keep your funds immediately accessible, such as in a savings account. If you expect that you will need $10,000 ready cash next September for a child's tuition payment, then move that money from your savings or money market account into a six-month certificate of deposit, or purchase a Treasury bill. Then, when the CD or the T-bill matures, move the money into a money fund so that you don't lose a single day's interest.

If you will need funds in two months to pay your taxes, use a similar strategy. Purchase a three-month CD at a rate higher than what you get with a passbook account. Then, when the funds are needed for that tax payment, borrow what you need from your bank or other lender for a month, pledging your CD as collateral. (You don't want to cash your CD early because of the premature-withdrawal penalty.)

The idea is to invest your funds for the maximum return until you need the money.

Perhaps the biggest mistake people make with their money is to pay bills long before they are due. If you get a grace period of 30 days, take it, making sure, of course, that you don't make your payments so close to their due dates that you wind up with late-payment penalties. If a credit-card company says it must receive your money by the 15th of each month, mail your check on the 10th. And if your mortgage company says it wants the money by the 1st, but there's no penalty for later payment if it's made by the 12th, use those extra days to your benefit rather than the bank's. Just don't hold payment so long that your credit rating is damaged or your electricity is turned off.

Small businesses often deposit their payroll taxes at the same time they write their payroll checks. You never want to get behind in your payroll taxes, but often you have a couple of weeks or more before the money has to be turned in.

If a supplier says payment within 30 days is the same as cash, use the full time. If you have the choice of paying for subscriptions when you order them or being billed for them later, let the magazine bill you, which gives you an extra two months to pay.

Cash management is tedious and exacting. However, if you spend as much time manipulating your cash as you spend trying to avoid income taxes, you will end up with more income during the year and more wealth during your lifetime.

## Both Buyer And Seller Must Agree On Assets

Both the buyer and the seller of a business must agree on precisely how the sale price should be allocated to each business asset that changes hands. If they do not agree, both parties can expect to hear from the Internal Revenue Service. The allocation is especially important for determining depreciation deductions. Keep in mind that new Form 8594 is required from both the buyer and the seller for reporting their allocations to the IRS. NB

# For Your Tax File

## How Tax Changes Affect Business

*By Gerald W. Padwe, C.P.A.*

In the January column, we looked at a few of the rules changes that Congress enacted for individual taxpayers in the 1988 tax law. Business, however, was not ignored by Congress in its rush to adjournment last October. A number of the new tax-law changes—mainly "technical corrections" to the Tax Reform Act of 1986—have direct impact on companies. Here are some of the business-related items in the new law:

**Pension Plans.** In the past few years, many employers have terminated qualified pension plans in order to recover excess plan assets not required to fund retirement obligations to employees. Even though these plans were created with employers' funds, Congress viewed pension terminations as providing "windfall" profits to employers. As a result, lawmakers raised the excise tax charged on funds recovered when a plan is terminated. The rate is now 15 percent, up from 10 percent.

**Research And Development.** One way government has helped to subsidize U.S. research-and-development activities is by providing a tax credit for certain research expenditures undertaken in recent years. The credit generally is 20 percent of the amount by which the costs of qualified research in a given year exceed the average of such costs over the prior three years. Thus, the credit is aimed at helping taxpayers who significantly increase their R&D activities. This credit was to expire at the end of 1988. There was pressure to extend it indefinitely, but there were concerns in Congress about the revenue loss attributable to the credit. So it was extended only through 1989.

The tax law also has permitted a deduction for current R&D costs. Congress decided it was inappropriate to allow both a credit and a full deduction based upon the same expenditure of funds. Accordingly, in 1989, currently deductible research expenses must be reduced by half the amount of the research credit allowed for the year.

PHOTO: © BROWNIE HARRIS—THE STOCK MARKET

*Because of changes in the 1988 tax law, the tax credit enjoyed by businesses that significantly increase their research-and-development activities will last only through 1989.*

**Completed-Contract Method.** Ever since the start of debate in 1984 on tax reform, the completed-contract method of accounting has been under heavy fire. This is the accounting method that allows defense contractors, home builders, and others to defer the reporting of income on a long-term contract for tax purposes until the entire contract is completed.

The 1986 act started a process of scaling back the benefits of the completed-contract method. The process was continued in 1987 and 1988.

Under the 1986 law, the amount of profit that could be deferred until the end of the contract was reduced from 100 percent to 60 percent; tax changes enacted in 1987 reduced the amount to 30 percent. The 1988 law reduces profits reported under the completed-contract method to only 10 percent for long-term contracts entered into after last June 20. Would you like to guess what the 1989 or 1990 tax-law changes are likely to do?

Home builders, however, received favorable treatment in the 1988 law. When a building is constructed to house no more than four families, the completed-contract method still may be used in full. Under the law, town houses and row houses are considered separate buildings. For residential construction designed to house more than four families, the 1987 rules remain in effect.

### Taxpayers' Bill Of Rights

After two years of concentrated effort, Congress has adopted a Taxpayers' Bill of Rights as part of the 1988 tax law. Sen. David Pryor, D-Ark., was a prime mover behind efforts to enact the bill, which is designed to put the Internal Revenue Service and the average taxpayer on a more level playing field.

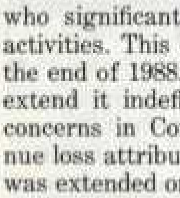
The changes made by the new measure will affect, among other things, the conduct of interviews. In the past, IRS auditors often dealt solely with the taxpayer's representative. Under a recent program, however, the IRS encouraged examining agents to conduct routine interviews with individual taxpayers themselves.

The Taxpayers' Bill of Rights confirms the older practice and in virtually all instances allows a taxpayer to be represented in interviews.

In addition, at any interview at which a taxpayer is present, the taxpayer has the right to make an audio recording of the interview at his or her expense. The IRS also has the same right, but only if the taxpayer is notified in advance and a copy of the tape or a transcript is provided later to the taxpayer.

Tax regulations normally are issued as proposals for public comment before they become effective. When immediate guidance is necessary, however, the IRS may issue temporary regulations that become authoritative instantly.

For various reasons, the IRS has issued a number of temporary regulations in the past few years. The new law says that temporary regulations are effective only for three years, and then their authority expires. NB



*Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.*

# Check Your Mail Carefully

*By Paul N. Strassels*

It's in the mail—not a check, but important 1988 tax information that you and your accountant will need in order to prepare your business and personal tax returns. This information usually arrives in January and February.

Make certain that you don't discard important documents that might have become mixed in with junk mail, magazines, catalogs, advertisements, newspapers, or any other items in your mail box in these weeks.

Here's what to look for:

- W-2 wage reports for those in your family who drew wages in 1988. If you are paid a salary, your corporation should furnish you a W-2.
- Interest-income information from your banks, savings and loans, and credit unions. Make sure you receive data on each account and certificate of deposit. The IRS feels that businesses, in particular, have failed to report all of their interest income, so the tax agency is eager to match the interest reported on business returns against what banks report they have paid.
- Dividends paid to you and your firm. Be sure to collect dividend information from each broker as well as from individual companies whose stock you hold independently.
- Year-end summaries from investment brokers. They report all taxable and tax-free interest and dividends credited to your account during the year, as well as all your securities sales, which you must reconcile with your Schedule D when you file your tax return.
- The amount of mortgage interest and real-estate taxes you paid during the year through your mortgage lender. This information is customarily reported to you by mail.
- Reminders from state and local governments of tax refunds they may have sent.
- Information on the amount of interest you paid last year on automobile and other loans.

PHOTO: KHOI TON

*Is your mailbox so crammed with junk mail that you throw much of it, unopened, into the trash? This time of year it pays to take a second look. Hiding between the catalogs and advertisements may be important interest and account information that you will need when filing your business and personal tax returns.*

*Paul N. Strassels, president of Money Matters Inc., Burke, Va., is a tax-law specialist and financial adviser.*

## Remove Life Insurance From Your Taxable Estate

Life insurance that you own is automatically included in your taxable estate unless you terminate your ownership rights to the policy more than three years prior to your death. To guarantee that your beneficiaries will receive life-insurance proceeds free from estate tax, consider establishing an irrevocable trust that will own the policy; give the trust's independent trustee ownership rights to the policy, including the right to change beneficiaries.

## How Much Is Your Business Worth?

Although it is difficult to put a price on your business, you must do it. If you don't, someone else might—possibly overlooking important variables such as the cyclical nature of your business or its dependence on another industry.

In a recent case, the owner of a small flooring company had died, and the IRS, in placing a value on the company for estate-tax purposes, based the value on the company's latest earnings report. Too high, the executor argued. He convinced the Tax Court to reduce the IRS valuation by 40 percent, pointing out that the business depended on the construction industry, which was headed into a downturn.

## Cash Transactions Still Interest IRS

The law requires tradespeople who receive more than $10,000 in cash from a business transaction, or from multiple related transactions, to inform the IRS of these payments on Form 8300. If you fail to do so, you could face civil or even criminal penalties. Play it safe. Report these payments.

## Corporate Generosity

A recent example illustrates how the savvy owner of a private corporation made a donation to a worthwhile charity. First, he caused his corporation to declare a dividend. Second, he donated some of his shares of stock to the charitable organization prior to the date the dividend was to be paid.

As a result, the individual shareholder received a deduction for the fair market value of the securities as of the date of the gift. And the charity, not the individual, received the dividends from the corporation because at the time the dividend was paid, the charity owned the stock. NB

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| Small Business News | 6:40 | 7:10 | 7:40 | 8:10 |
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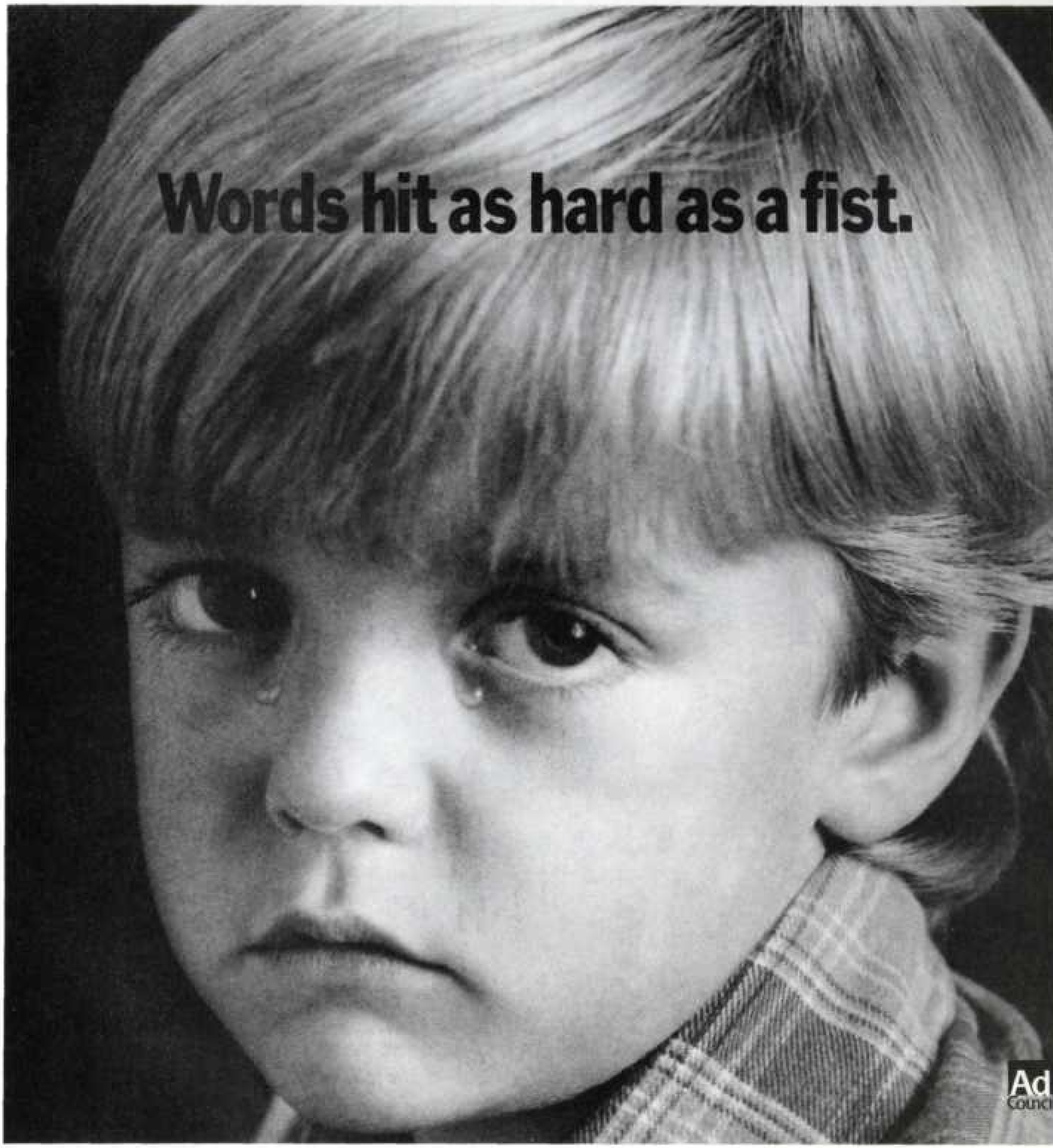


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DCM/84

# Franchising's Pathfinders

*New franchises can succeed by capitalizing on lifestyle trends, but make sure you ask the right questions before you buy.*

*By Nancy Croft Baker and Meg Whittemore*


PHOTO: © TOMMY THOMPSON—BLACK STAR

PHOTO: TANYA THOMASSIE

*Coleman Orr's Classic Care of America taps the trend toward van-operated franchises. Seller's Choice owner Jody Wilson, right, helps people sell their own homes.*


*Pamala Runnels, above, cofounder of Critter Care Inc., meets the growing need for care of pets, plants, and homes while their owners are out of town on business or vacation.*

These days it seems that franchising can be attempted with nearly any type of business. Remember the freeze-drying service for people who wanted to preserve their deceased pets? That company certainly received media attention, though it wasn't the most successful franchise.

For the first-time buyer who wants to tap into the next franchise blockbuster, purchasing a new franchise may look like a golden opportunity. Unfortunately, some new franchisors make unrealistic promises of huge success. Before buying a new franchise that promises to be the next Domino's or Jiffy Lube, do some detective work.

One way to spot promising opportunities in franchising is to follow demographic trends. Select for further investigation franchises in new industry categories that fill niches created by those trends, says William Cherkasky, president of the International Franchise Association. "As franchising matures, prospective buyers are finding it pays to look at growth forecasts in each franchised industry," he says.

Cherkasky tracks key growth industries for franchising by examining his association's membership applications, which he says are "good indicators of the most recent directions in franchising." During the past two years, he says, a number of the IFA's new members have come from franchise systems offering business products and services, automobile aftermarket services, and in-home services that range from providing companions and helping with child care to taking care of homes, gardens, and pets when owners are absent.

Following are several business categories that experts say will be sources of increased franchising interest in the coming years.

*Meg Whittemore is a Washington-based franchise writer and partner in More Than Media, a firm that offers writing, broadcast, and placement services to corporations and emerging growth companies.*

**Accounting Services.** In increasingly competitive and growing industries such as health care, franchises are stepping in to meet bookkeeping needs. One franchise that targets health professionals with accounting services is Mifax Service and Systems Inc., in Waterloo, Iowa. The 20-year-old company, which started selling franchises in the early 1980s and has seen a boom in sales in recent years, specializes in selling accounting systems to private medical practices. Clients include dentists, podiatrists, optometrists, physicians, and anyone associated with the medical market. The company also offers services for billing patients and processing insurance claims.

The franchise system is based on a dealership concept, with no monthly royalty or advertising fee. Franchisees

distribute Control-o-fax Office Systems exclusively. The franchisor charges a minimum down payment of $11,800 and requires the franchisee to keep an additional $13,840 in reserve for various initial expenses.

Franchisees, who can work from their homes, make "cold" calls to doctors' offices to sell the product. The franchisor makes a percentage of each sale (percentages vary according to product price). Franchisees stock no inventory, and the company manages franchisees' accounts receivables. Tom Mullen, president, says each market consists of 1,000 to 1,200 doctors' offices. Mifax has 70 franchises nationwide.

**Legal Services.** "The rapid growth of law offices has created a shortage of qualified legal secretaries, paralegals, law clerks, and other support personnel," says Louise Hackett. A former legal assistant who founded the parent company in 1973, Hackett began franchising a temporary-personnel agency specializing in legal support this year. Legalstaff Inc., which is based in Sacramento, Calif., has one franchise in Los Angeles and one in Washington, as well as company-owned units in San Francisco and San Jose, Calif. The company grossed more than $2 million in 1987.

A Legalstaff franchise's typical territory covers about 1,500 law firms. Depending on the size of the territory, start-up costs for a franchise are $46,000 to $54,000. They include a $25,000 franchise fee, $10,000 for office rental and related costs, and a $20,000 line of credit to cover payroll costs of temporary employees. Franchisees also pay a sliding-scale royalty—8 percent on the first $300,000 of monthly gross income, 6 percent on the next $200,000, and 4 percent on income beyond $500,000. There is also a 2 percent advertising fee to cover newspaper, magazine, and newsletter ads, as well as promoting the service at professional trade shows and meetings. Franchisees receive a computerized personnel-management system, which automatically tracks temporary employees' work time and issues billing statements.

**Home Services.** Busy homeowners and two-income households have created brisk demand in franchisee-provided home services, such as housecleaning and home inspection. Home-inspection franchisees, for instance, inspect a home or any other property for the busy home buyer who doesn't have time—or the knowledge of construction—to make an informed decision before making a purchase.

National Property Inspections, in Omaha, Neb., has sold nine franchises since it began franchising two years ago. Roland Bates, who was a general contractor before he franchised his home-inspection business, says there has been a growing demand for home inspections across the country. "We've basically evolved into a white-collar society," he says. "Most people today can't even change a light switch, and they don't have the time to really take a good look at what they're buying."

In addition to checking electrical outlets, furnaces, structural aspects, and roofs, National Property Inspections was one of the first home-inspection companies to test for radon, a colorless, odorless gas that seeps into buildings

from the ground and has been linked to forms of cancer. Customers are charged $175 to $500 for inspections.

Most National Property Inspections franchisees, who pay a $14,000 franchising fee, have some construction or contracting background. Royalties are 8 percent on the first $100,000 of gross sales and 6 percent thereafter. They also pay a 1 percent advertising fee. Bates says total start-up costs seldom run above $25,000. Franchisees receive a week of training, equipment, a monthly newsletter, and frequent phone calls from Bates and his marketing assistant to see how they are doing. Overhead is fairly low, says Bates, because most of his franchises are run from the home.

While most home buyers don't know enough about construction technology to inspect their own homes, many do know enough to sell their properties without a broker. Seller's Choice, a franchise based in Denver, hopes these people will tap into its franchisees' special network of home buyers.

Each Seller's Choice franchisee maintains a computerized list of home buyers' and sellers' names, which are matched according to asking price, location, and other factors. The franchisee matches home buyers with properties in a database and then sends the seller's information to prospective buyers. The buyer and seller work with each other after that.

For a one-time fee of $245, a home seller can advertise a property in the computer network until it is sold. This fee, says Jody Wilson, owner and president, is a fraction of the cost of an agent's typical commission, which averages 7 percent of the selling price. The company also advertises its computerized list to buyers on television. "We've recognized that a lot of people want to do it themselves," but they may not have access to a variety of prospective home buyers, says Wilson. "We open up that field of buyers for them."

Franchisees also maintain a referral network of real-estate attorneys and mortgage and title companies, which often have lower fees for Seller's Choice clients. Moreover, the franchisee walks the home seller through all the steps to closing. "There's always been a fear factor over how to get through a closing once they have a buyer," says Wilson. "We will put them in touch with title companies, mortgage companies, and attorneys, so they don't have to be intimidated."

Seller's Choice franchise fees range from $15,000 to $100,000, depending on

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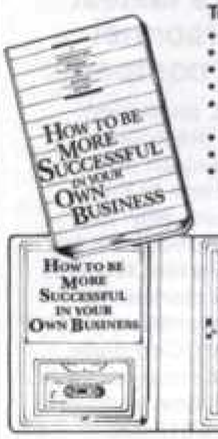


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the number of houses in a particular territory. The royalty and advertising fees, which are based on gross sales, are 5 percent and 2 percent respectively. Start-up costs can run an additional $25,000 to $35,000.

A one-week course trains franchisees in buying and placing advertising in their communities. The company also supplies printed material for advertising, as well as computer software for the matching service. If franchisees run into any pitfalls or just need reassurance, they can call an 800 number, known as the Owner's Hotline, which connects them to franchise advisers. The year-old company started selling franchises in August, and one franchise, in Denver, has been opened.

**Businesses Operated From Mobile Units.** Bob Kushell, a franchise consultant in Glen Cove, N.Y., says he sees a move toward inexpensive mobile-unit franchises, which can include anything from home interiors to lube jobs to car washing to accounting services. These mobile units address the biggest consumer need today—convenience.

Classic Care of America, for example, has based its corporate strategy on the trends of home service, convenience, and mobile units. Headquartered in Alpharetta, Ga., the year-old parent company and franchise operates customized vans with high-powered equipment that purifies water at the site for use in washing home or office windows in a few minutes. The cost to the customer is $49 for a house with up to 15 windows, and $3.50 for each additional window. The company also cleans decks, porches, chandeliers, and automobiles, says founder Coleman Orr.

A Classic Care franchisee can get started for $30,550 to $38,400 (including the $18,000 franchise fee, inventory, and insurance). The monthly royalty is 5 percent, and franchisees also pay a 2 percent advertising fee for the company's direct-mail program.

Since the company began franchising last year, it has sold 20 franchises on the East Coast. The number is high, says Marketing Director Robert Lenny, because the company pays close attention to its franchisees' needs. "We regularly go back into the field to check on franchisees," he says. Other franchisors, says Lenny, "would like you to think that all you have to do is turn the key and off the business runs, but it's just not that simple. You really have to work at it. We look for people with 'stick-to-itiveness,' who are willing to work hard to make the business successful."

**Travel.** One of the many new franchises that cater to the growing number of business and pleasure travelers is Critter Care Inc., which provides in-home care to pets while their owners are away. Its franchisees will feed, exercise, groom, and play with pets for an average of $10 per visit. Other services include security checks, bringing in mail, watering plants, making the house appear lived in, and any other special requests.

The company, based in Baton Rouge, La., started franchising in 1988 after two years of test marketing, and now it has five franchises in Texas and Louisiana. Founders Pamala Runnels and Virginia "Cresie" Gordon see a growing need for their services. "Lifestyles and

demands for convenience are changing," says Runnels. "There are more pets, more two-income families, more singles, and more travel for business and pleasure among these groups. Many people don't like to put the family pet in a kennel."

Critter Care franchises are sold in territories. The franchise fee varies from $2,000 to $8,750, depending on the territory size. The company provides a three-day training seminar, an operations manual, marketing and public-relations services, educational newsletters on pet care, and protective apparel to guard against bites. Franchisees pay a graduated royalty fee up to 5 percent and a 2 percent advertising fee, which covers national advertising in magazines and trade publications. Most Critter Care franchisees are women who are interested in running a home-based business for a second income.

Before signing any commitment, a prospective franchise buyer should understand the theory of franchising and be familiar with the system whose franchise is under consideration.

Many small-business owners see franchising as a way to expand their companies quickly, and often they are not prepared to provide the support services that new franchisees need at the start.

IFA's William Cherkasky advises caution for those who buy into an industry that is experiencing a very rapid growth of franchises. "Sometimes fast-growing industries have a tendency to usher in fast-buck artists who are more intent on collecting franchise fees than they are in seeing a system and its franchisees grow and prosper together."

When buying any franchise, carefully examine the Uniform Franchising Offering Circular, or disclosure document, and have an experienced franchise attorney and a certified public accountant examine it as well. Most important, says Cherkasky, talk to franchisees of the system. "They won't hesitate in telling you what they like and don't like about the system."

Buying a new franchise can be a trickier decision than buying one that already has name recognition, says Steven Raab, a franchise-development consultant in Philadelphia and author of several books on franchising.

On the other hand, prospective buyers of a new franchise are in the catbird seat when negotiating contracts, says franchise consultant Bob Kushell.

"This is a good time to bargain," he says. "The franchisor needs successes. He needs those franchisees who will really hustle and make their businesses successful. At this point in the franchise's life, the franchisee really has some bargaining chips."

Raab and Kushell recommend guidelines for talking to a new franchisor:

- Look for a franchisor who will be your partner in growth. Will he give you a lower franchise fee or a larger territory? Franchisees of a new system should receive some tangible compensation for being the guinea pigs.
- Set tangible goals for performance and reward. "The franchisee has a right to feel that as his gross revenue increases and his royalty payments to the franchisor increase, that he should receive things of real value, such as more individual attention and training," says Kushell.
- Look for a franchisor who has a sensible growth plan. If a franchisor tells you that he plans to sell 200 franchises over the next year, be wary. A new franchise company typically has insufficient resources for providing support to so many new franchisees. When franchisors are dedicated only to expanding the system, the franchisees often are shortchanged on advice and start-up support.
- Look for a franchisor who operates one or more company units—a way to keep in touch with consumers' preferences and competitors' strategies.
- Visit the company's units on your own, without the franchisor. Is the location clean and orderly? Are employees well trained and polite? Do customers seem satisfied? Sit outside the unit for a few hours and take a traffic count.
- Examine the income statements of company units. If the franchisor will not let you see them, look for another franchise to buy.
- Ask your prospective franchisor how you can participate in the growth and development of the company. Will he set up a franchisee advisory council? Does the system have a way for franchisees to recommend modifications and see results?
- Ask to see the franchisor's business plan. After he has taught you the basics of the business, what more can he teach you? After running their franchises day in and day out for several years, many franchisees know more about the business than the franchisor. Ask the franchisor what he will do for you when you know more about the business than he does. NB

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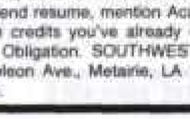

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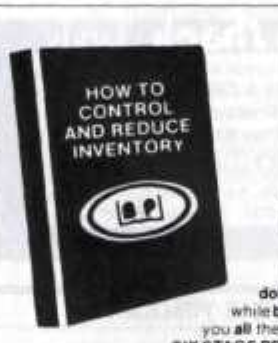


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While the president has pledged repeatedly he will not accept tax increases to solve the deficit problem, that option remains under serious discussion in Congress. Proponents argue that nondefense spending has been cut to the bone the last eight years and that it is

national child-care assistance system, must be enacted. Do you support balancing the budget through tax hikes alone?

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The third option available to Bush and Congress is to negotiate a combination of spending restraints and tax increases. Proponents of such a package cite its equity, the need to fund new government initiatives, and the need to achieve a budget surplus to increase the national savings rate. Opponents argue that any tax increase would not be used to balance the budget, and they contend it would slow economic growth, probably inducing a recession. Do you support balancing the budget through a combination of spending restrictions and tax increases?

## Verdicts On December Poll

*Here is how readers responded to the questions in the December issue.*

| | Yes | No | Undecided |
|---|---|---|---|
| Should Congress require U.S. firms to leave South Africa? | 12% | 80% | 8% |
| Should Congress act now on acid rain? | 62% | 23% | 15% |
| Should Congress regulate firearms more strictly? | 33% | 62% | 5% |

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THE NATION'S BUSINESS

# Where I Stand

*Results of this monthly poll are forwarded to top government officials in the White House and Congress.*

## 1. Balance Budget Only By Curbing Spending?

President Bush and Congress are discussing ways to balance the budget by 1993 in an effort to sustain economic growth. One available option is to restrain the growth rate of spending. Proponents of this choice point out that spending has doubled—to more than $1 trillion—since 1980. The Consumer Price Index increased 40 percent over the same period. They contend that at the current growth rate of revenues, the deficit will be eliminated in five years if spending is held to the rate of inflation. Do you support balancing the budget through spending curbs alone?

## 2. Balance Budget Only By Increasing Taxes?

While the president has pledged repeatedly he will not accept tax increases to solve the deficit problem, that option remains under serious discussion in Congress. Proponents argue that nondefense spending has been cut to the bone the last eight years and that it is unrealistic to assume that still more decreases are feasible. They also contend that new spending programs, such as a national child-care assistance system, must be enacted. Do you support balancing the budget through tax hikes alone?

## 3. Balance Budget With Tax Hikes, Spending Cuts?

The third option available to Bush and Congress is to negotiate a combination of spending restraints and tax increases. Proponents of such a package cite its equity, the need to fund new government initiatives, and the need to achieve a budget surplus to increase the national savings rate. Opponents argue that any tax increase would not be used to balance the budget, and they contend it would slow economic growth, probably inducing a recession. Do you support balancing the budget through a combination of spending restrictions and tax increases?

## Verdicts On December Poll

*Here is how readers responded to the questions in the December issue.*

| | Yes | No | Undecided |
|---|---|---|---|
| Should Congress require U.S. firms to leave South Africa? | 12% | 80% | 8% |
| Should Congress act now on acid rain? | 62% | 23% | 15% |
| Should Congress regulate firearms more strictly? | 33% | 62% | 5% |

*Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

COMMENTARY

# Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

## The Cost Of Missed Clean-Air Deadlines

PHOTO: ©PETER BECK—THE STOCK MARKET

Many major metropolitan areas failed to meet the Clean Air Act's air-quality standards for ozone and carbon monoxide by the law's deadline of Aug. 31, 1988. The 101st Congress will be faced with attempts to amend the law substantively.

The Clean Air Act affects industrial development and growth by dictating where industrial facilities can be located and whether they can be expanded. The law sets deadlines for compliance with national air-quality standards. When the standards are not met within the deadlines, the Environmental Protection Agency can exercise its authority to ban construction or expansion of industrial facilities and withhold federal grants for highway construction, air-pollution control, and sewage treatment.

Many communities failed to meet the deadlines for achieving these air-quality standards, and now they may face stringent new emission controls or bans on industrial construction, or both. These controls and bans do not necessarily result in cleaner air, but they do place severe economic burdens on businesses regulated under the law.

Urge your senators and representatives to support a modified strategy for dealing with failure to meet air-quality standards for ozone, a strategy that focuses on measures that have the lowest social and economic costs to bring communities into compliance with those health-based standards.

## A Lower Tax Rate On Capital Gains

PHOTO: ©BOB DAEMMRICH—UNIPHOTO

Restoration of a meaningful capital-gains differential is one of the most important actions that the Congress and the Bush administration could take to assure the continued success of new and growing small businesses in creating jobs, prompting economic growth, and fostering a competitive American economy.

Unless the tax rate on long-term, venture-oriented capital gains is significantly lower than rates on ordinary individual and corporate income, many investors will not be willing to assume the increased risks and illiquidity that are associated with small-business investments.

The Tax Reform Act of 1986 combines lower rates on ordinary income and higher rates on capital gains, encouraging institutional and private investors alike to shift their portfolios from higher-risk investments, whose returns come in the form of capital gains, to more conservative investments, whose returns come in the form of dividends, interest, rents, and the like. This has resulted in elimination of a major economic incentive that encourages risk-taking entrepreneurs to create, be innovative, make new products, and encourage others to help finance their ideas.

Contact your senators and representatives to urge them to support a lower tax rate on capital gains.

## Climate Changes: A Global Concern

PHOTO: ©GABE PALMER—THE STOCK MARKET

Concern about possible changes in the world's climate is expected to drive the debate on energy and environmental policies in the 101st Congress.

Because of the high temperatures and drought in the U.S. last summer, global warming trends and the so-called greenhouse effect have received increased national attention.

The greenhouse effect, experts say, occurs when carbon dioxide and other gases produced by a broad range of natural as well as man-made processes accumulate in the atmosphere. The gases pass solar-heat radiation but reflect the earth's radiation, much as greenhouse glass traps heat. As the gases become more abundant, more heat is trapped, and the earth's temperature may rise significantly.

The possible consequences include economic disruption and dislocation, drought, diminished agricultural production, reduced levels of lake waters, and resultant lifestyle changes.

Write to your senators and representatives to urge their support for international cooperation, research, and sharing of scientific data on changes in the atmosphere.

COMMENTARY

# Editorials

*Voters overwhelmingly affirmed President Bush's contention that deficit reduction requires discipline in spending.*

## Now It's Time For Congress To Read Voters' Lips On Tax Increases

The presidential candidates uttered millions of words during the 1988 campaign. But just three of them probably made more of a lasting impact than all the others combined: "Read my lips."

Candidate George Bush used that now-famous remark to emphasize his opposition to tax increases to eliminate the federal budget deficit. The answer to the deficit, he said, is not higher taxes but spending discipline. That discipline, Bush added, could be achieved through his "fair and flexible freeze," which would limit spending increases to the inflation rate, exempting only Social Security and interest.

By avoiding tax increases, the Bush plan would allow continuing economic growth, which, in turn, would generate the added revenues needed to balance the budget by 1993.

Voters read his lips, liked his message, and gave him a landslide victory.

But there are those who do not accept the election results as a national consensus on the new president's basic fiscal position. For them, the tax-increase question is still open.

*Tax increases should be considered only if you believe that there should be no limits on federal spending and the government has the right to spend every dime of revenue and demand more when that runs out.*

They argue that the historic tax-relief act of 1981 resulted in excessive revenue losses and massive deficits. The obvious solution, they insist, is to increase taxes to restore the revenue flow. That depiction calls up a vision of a legislative dam that reduced to a trickle what had been a torrent of revenues flowing to Washington prior to 1981.

But that simply did not happen. Federal revenues were $600 billion in 1981, have since increased 76 percent—to more than $1 trillion—and will be nearly $1.3 trillion by 1993. Those numbers certainly don't suggest a shortage of income.

The basic flaw in the tax-increase argument is its failure to recognize the relationship between revenue growth and inflation.

The 76 percent income increase for this decade compares with a 40 percent increase in inflation. It follows that holding spending growth to inflation would permit elimination of the deficit within the existing revenue structure. The president's budget plan shows how income and outgo can be brought into balance by 1993.

Tax increases should be considered only if you believe that there should be no limits on federal spending and that it is acceptable fiscal policy for the government to spend every dime of available revenue and then demand more when that runs out.

The American people rejected that idea in overwhelming numbers last November. The president promised that he would eliminate the deficit without raising taxes. He has a workable plan to do just that. It's now time for Congress to read his lips.

## Why Soviet Leader Gorbachev's Task Is So Difficult

*Some commentators see parallels between the American Revolution and current events in the Soviet Union. In this guest editorial, former U.S. Chief Justice Warren E. Burger, who is chairman of the Commission on the Bicentennial of the United States Constitution, compares the Soviet Union of today with the America of 200 years ago.*

Soviet President Mikhail Gorbachev is trying to manumit [liberate]—politically and economically—the millions in the Soviet Union and other millions under its rule. Is his problem like ours 200 years ago? Yes and no. Mostly no. The seeds he is planting may be the same, but the soil is not. For more than 70 years, beginning with Lenin and Stalin, the Soviets have made political and economic serfs of the people—even more so than the czars did.

Under the czars, there was considerable religious freedom, so long as religion didn't intrude into politics. On most matters, the Romanov courts were nearly as free as those of many West European countries of that day under the Napoleonic codes.

But a ruthless Lenin and his Bolsheviks crushed what liberating progress had developed. For more than 70 years after the revolution, the minds and spirits of the Russian people were imprisoned.

That is why Mr. Gorbachev's task is so difficult, so massive, compared with the challenges we faced in 1776 and 1787.

When America won its freedom, our 3 million people had been running their own affairs in neighborhood and town meetings going back to Jamestown in 1607 and the Mayflower Compact of 1621.

Mr. Gorbachev has invited a struggle between the masses who want freedom but are not experienced in its uses and the entrenched party regulars. Can those masses learn in one generation what Americans began learning at Jamestown and Plymouth Rock?

It will not be easy. The prayers of all free people must be that Gorbachev will succeed. His success will be ours; his failure will affect the whole world. NB

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